IN THE UNITED STATES DISTRICT COURT
FOR THE SOUTHERN DISTRICT OF NEW YORK

NATIONAL CREDIT UNION	)	
ADMINISTRATION BOARD,	)	
as Liquidating Agent of Southwest Corporate	)	
Federal Credit Union and Members United	)	
Corporate Federal Credit Union,	)	
	)	Case No.
Plaintiffs,	)	
	)	**JURY TRIAL DEMANDED**
v.	)	
	)	
BEAR, STEARNS & CO., INC.,	)	
n/k/a J.P. MORGAN SECURITIES, LLC,	)	
J.P. MORGAN SECURITIES LLC,	)	
J.P. MORGAN ACCEPTANCE CORP. I,	)	
	)	
Defendants.	)	

COMPLAINT

TABLE OF CONTENTS

Plaintiff, the National Credit Union Administration Board ("NCUA Board"), brings this action in its capacity as Liquidating Agent of Southwest Corporate Federal Credit Union ("Southwest") and Members United Corporate Federal Credit Union ("Members United") (collectively "the Credit Unions") against Bear, Stearns & Co., Inc. n/k/a J.P. Morgan Securities, LLC ("Bear Stearns") and J.P. Morgan Securities, LLC ("J.P. Morgan") (collectively, the "Underwriter Defendants") as underwriters and sellers, and against J.P. Morgan Acceptance Corp. I ("the Issuer"), as issuer, of certain residential mortgage-backed securities ("RMBS") purchased by the Credit Unions, and alleges as follows:

I. NATURE OF THE ACTION

1. This action arises out of the sale of RMBS to the Credit Unions where the Underwriter Defendants acted as underwriters and/or sellers of the RMBS.

2. Virtually all of the RMBS sold to the Credit Unions were rated as triple-A (the same rating as U.S. Treasury bonds) at the time of issuance.

3. The Issuer issued and the Underwriter Defendants underwrote and sold the RMBS pursuant to registration statements, prospectuses, prospectus supplements, free writing prospectuses, and other written materials (collectively, the "Offering Documents"). These Offering Documents contained untrue statements of material fact or omitted to state material facts in violation of Section 11 of the Securities Act of 1933 ("Securities Act"), 15 U.S.C. §§ 77k ("Section 11"), the Texas Securities Act, Tex. Rev. Civ. Stat. Ann. art 581, § 33 ("Texas Blue Sky law"), and the Illinois Securities Law of 1953, 815 Ill. Comp. Stat. Ann. 5/12 & 13 ("Illinois Blue Sky law").

4. The Offering Documents described, among other things, the mortgage underwriting standards of the originators who made the mortgages that were pooled and served

as the collateral for the RMBS purchased by the Credit Unions ("the Originators").

5. The Offering Documents represented that the Originators adhered to the underwriting guidelines set out in the Offering Documents for the mortgages in the pools collateralizing the RMBS.

6. In fact, the Originators had systematically abandoned the stated underwriting guidelines in the Offering Documents. Because the mortgages in the pools collateralizing the RMBS were largely underwritten without adherence to the underwriting standards in the Offering Documents, the RMBS were significantly riskier than represented.

7. These untrue statements and omissions were material because the value of RMBS is largely a function of the cash flow from the principal and interest payments on the mortgage loans collateralizing the RMBS. Thus, the performance of the RMBS is tied to the borrower's ability to repay the loan.

8. The Credit Unions purchased certain RMBS issued by the Issuers and underwritten and/or sold by the Underwriter Defendants as indicated in Table 1 (*infra*). Defendants are therefore liable for material untrue statements and omissions of fact in the Offering Documents for these RMBS under Section 11 and/or the Texas Blue Sky Law and Illinois Blue Sky Law as indicated in Table 1 (*infra*).

Table 1

Underwriter	CUSIP[1]	Issuing Entity	Depositor	Purchaser	Trade Date	Price Paid	Claims
Bear Stearns	07386HXN6	Bear Stearns ALT-A Trust 2005-9	Structured Asset Mortgage Investments II, Inc.	Members United	3/7/2007	$16,677,202	Illinois Blue Sky
	07401WAA7	Bear Stearns Second Lien Trust 2007-1	Bear Stearns Asset Backed Securities I LLC	Southwest	4/16/2007	$7,500,000	Texas Blue Sky

[1] "CUSIP" stands for "Committee on Uniform Securities Identification Procedures." A CUSIP number is used to identify most securities, including certificates of RMBS. See CUSIP Number, http://www.sec.gov/answers/cusip.htm.

Underwriter	CUSIP[1]	Issuing Entity	Depositor	Purchaser	Trade Date	Price Paid	Claims
	07401WAA7	Bear Stearns Second Lien Trust 2007-1	Bear Stearns Asset Backed Securities I LLC	Members United	4/15/2007	$14,000,000	Illinois Blue Sky
	07401WAP4	Bear Stearns Second Lien Trust 2007-1, Groups II and III	Bear Stearns Asset Backed Securities I LLC	Southwest	4/27/2007	$20,000,000	Texas Blue Sky
	38012EAC9	GMACM Home Equity Loan Trust 2006-HE5	Residential Asset Mortgage Products, Inc.	Members United	11/21/2006	$30,000,000	Illinois Blue Sky
	45254NNB9	Impac CMB Trust Series 2005-2	IMH Assets Corp.	Members United	11/2/2005	$12,260,087	Illinois Blue Sky
	45254NQG5	Impac CMB Trust Series 2005-6	IMH Assets Corp.	Southwest	4/3/2007	$17,299,536	Texas Blue Sky
	71085PDD2	People's Choice Home Loan Securities Trust Series 2005-4	People's Choice Home Loan Securities Corp.	Southwest	12/21/2005	$8,284,000	Texas Blue Sky
	785778PF2	SACO I Trust 2006-2	Bear Stearns Asset Backed Securities I LLC	Southwest	1/4/2007	$15,082,907	Texas Blue Sky
	785778PG0	SACO I Trust 2006-2	Bear Stearns Asset Backed Securities I LLC	Members United	1/20/2006	$30,000,000	Illinois Blue Sky
	78577PAA1	SACO I Trust 2006-7	Bear Stearns Asset Backed Securities I LLC	Southwest	6/19/2006	$15,000,000	Texas Blue Sky
	785813AA4	SACO I Trust 2006-8	Bear Stearns Asset Backed Securities I LLC	Southwest	9/7/2006	$15,000,000	Texas Blue Sky
	78577NAG3	SACO I Trust 2006-12	Bear Stearns Asset Backed Securities I LLC	Members United	12/18/2006	$30,004,575	Illinois Blue Sky
	784208AD2	SG Mortgage Securities Trust 2006-FRE2	SG Mortgage Securities, LLC	Southwest	7/7/2006	$8,000,000	Texas Blue Sky
	86359LSM2	Structured Asset Mortgage Investments II Trust 2006-AR2	Bear Stearns Asset Backed Securities I LLC	Members United	1/26/2006	$20,000,000	Illinois Blue Sky
J.P. Morgan	16165WAA4	ChaseFlex Trust Series 2007-2	Chase Mortgage Finance Corp.	Southwest	7/12/2007	$9,828,237	Texas Blue Sky
	16165WAB2	ChaseFlex Trust Series 2007-2	Chase Mortgage Finance Corp.	Southwest	4/20/2007	$28,380,000	Texas Blue Sky
	16165AAE4	ChaseFlex Trust Series 2007-3	Chase Mortgage Finance Corp.	Members United	6/26/2007	$10,000,000	Illinois Blue Sky
	16165AAD6	ChaseFlex Trust Series 2007-3	Chase Mortgage Finance Corp.	Members United	6/26/2007	$10,000,000	Illinois Blue Sky
	16165YAB8	ChaseFlex Trust Series 2007-M1	Chase Mortgage Finance Corp.	Members United	7/25/2007	$35,000,000	Illinois Blue Sky
	361856ER4	GMACM Home Equity Loan Trust 2006-HE1	Residential Asset Mortgage Products, Inc.	Southwest	3/28/2006	$40,000,000	Texas Blue Sky

Underwriter	CUSIP[1]	Issuing Entity	Depositor	Purchaser	Trade Date	Price Paid	Claims
	361856ER4	GMACM Home Equity Loan Trust 2006-HE1	Residential Asset Mortgage Products, Inc.	Members United	3/27/2006	$75,000,000	Illinois Blue Sky
	46628GAE9	J.P. Morgan Alternative Loan Trust 2006-A2	J.P. Morgan Acceptance, Corp. I	Southwest	5/4/2007	$9,627,508	§ 11 and Texas Blue Sky
	466287AA7	J.P. Morgan Alternative Loan Trust 2007-A1	J.P. Morgan Acceptance, Corp. I	Southwest	2/15/2007	$30,000,000	Texas Blue Sky
	466287AE9	J.P. Morgan Alternative Loan Trust 2007-A1	J.P. Morgan Acceptance, Corp. I	Members United	2/14/2007	$18,044,000	Illinois Blue Sky
	466278AE8	J.P. Morgan Alternative Loan Trust 2007-A2	J.P. Morgan Acceptance, Corp. I	Southwest	5/29/2007	$20,228,000	Texas Blue Sky
	466275AA2	J.P. Morgan Alternative Loan Trust 2007-S1	J.P. Morgan Acceptance, Corp. I	Southwest	5/15/2007	$30,025,000	Texas Blue Sky
	466275AA2	J.P. Morgan Alternative Loan Trust 2007-S1	J.P. Morgan Acceptance, Corp. I	Members United	5/15/2007	$50,040,000	Illinois Blue Sky

9. The RMBS the Credit Unions purchased suffered a significant drop in market value. The Credit Unions have suffered significant losses from those RMBS purchased despite the NCUA Board's mitigation efforts.

II. PARTIES AND RELEVANT NON-PARTIES

10. The National Credit Union Administration ("NCUA") is an independent agency of the Executive Branch of the United States Government that, among other things, charters and regulates federal credit unions, and operates and manages the National Credit Union Share Insurance Fund ("NCUSIF") and the Temporary Corporate Credit Union Stabilization Fund ("TCCUSF"). The TCCUSF was created in 2009 to allow the NCUA to borrow funds from the United States Department of the Treasury ("Treasury Department") for the purposes of stabilizing corporate credit unions under conservatorship or liquidation, or corporate credit unions threatened with conservatorship or liquidation. The NCUA must repay all monies borrowed from the Treasury Department for the purposes of the TCCUSF by 2021 through assessments against all federally insured credit unions in the country. The NCUSIF insures the

deposits of account holders in all federal credit unions and the majority of state-chartered credit unions. The NCUA has regulatory authority over state-chartered credit unions that have their deposits insured by the NCUSIF. The NCUA is under the management of the NCUA Board. *See* Federal Credit Union Act, 12 U.S.C. §§ 1751, 1752a(a) ("FCU Act").

11. Southwest was a federally chartered corporate credit union with its offices and principal place of business in Plano, Texas. As a corporate credit union, Southwest provided investment and financial services to other credit unions.

12. Members United was a federally chartered corporate credit union with its offices and principal place of business in Warrenville, Illinois. Members United was created in mid-2006 by the merger of Empire and Mid-States Corporate Federal Credit Unions. As a corporate credit union, Members United provided investment and financial services to other credit unions.

13. On September 24, 2010, the NCUA Board placed the Credit Unions into conservatorship pursuant to the FCUA, 12 U.S.C. § 1751, *et seq*. On October 31, 2010, the NCUA Board placed the Credit Unions into involuntary liquidation, appointing itself Liquidating Agent.

14. Pursuant to 12 U.S.C. § 1787(b)(2)(A), the NCUA Board as Liquidating Agent has succeeded to all rights, titles, powers, and privileges of the Credit Unions and of any member, account holder, officer or director of the Credit Unions, with respect to the Credit Unions and their assets, including the right to bring the claims asserted in this action. As Liquidating Agent, the NCUA Board has all the powers of the members, directors, officers, and committees of the Credit Unions, and succeeds to all rights, titles, powers, and privileges of the Credit Unions. *See* 12 U.S.C. §1787(b)(2)(A). The NCUA Board may also sue on the Credit Unions' behalf. *See* 12 U.S.C. §§ 1766(b)(3)(A), 1787(b)(2), 1789(a)(2).

15. Prior to being placed into conservatorship and involuntary liquidation, the Credit Unions were two of the largest corporate credit unions in the United States.

16. Any recoveries from this legal action will reduce the total losses resulting from the failure of the Credit Unions. Losses from the Credit Unions' failures must be paid from the NCUSIF or the TCCUSF. Expenditures from these funds must be repaid through assessments against all federally insured credit unions. Because of the expenditures resulting from the Credit Unions' failures, federally insured credit unions will experience larger assessments, thereby reducing federally insured credit unions' net worth. Reductions in net worth can adversely affect the dividends that individual members of credit unions receive for the savings on deposit at their credit union. Reductions in net worth can also make loans for home mortgages and automobile purchases more expensive and difficult to obtain. Any recoveries from this action will help to reduce the amount of any future assessments on credit unions throughout the system, reducing the negative impact on federally insured credit unions' net worth. Recoveries from this action will benefit credit unions and their individual members by increasing net worth resulting in more efficient and lower-cost lending practices.

17. Bear Stearns was an SEC registered broker-dealer. Bear Stearns acted as an underwriter of certain RMBS that are the subject of this Complaint as indicated in Table 1 (*supra*). Bear Stearns was a subsidiary of The Bear Stearns Companies, Inc. ("Bear Parent"). In October 2008, following a merger between Bear Parent and a wholly owned subsidiary of JPMorgan Chase & Co., Defendant Bear Stearns merged with and into an existing JPMorgan Chase & Co. subsidiary named J.P. Morgan Securities, Inc. In September 2010, J.P. Morgan Securities, Inc. was converted to a limited liability company called J.P. Morgan Securities, LLC. Accordingly, J.P. Morgan Securities, LLC is Defendant Bear Stearns's legal successor, and all

allegations against Bear Stearns are made against J.P. Morgan Securities, LLC as such.

18. J.P. Morgan is an SEC registered broker-dealer. J.P. Morgan acted as an underwriter of certain of the RMBS that are the subject of this Complaint as indicated in Table 1 (*supra*). J.P. Morgan is a Delaware corporation with its principal place of business in New York.

19. J.P. Morgan Acceptance Corp. I is the depositor and the issuer of certain RMBS that are the subject of this Complaint as indicated in Table 1 (*supra*). J.P. Morgan Acceptance Corporation I is a Delaware corporation with its principal place of business in New York.

III. JURISDICTION AND VENUE

20. This Court has subject matter jurisdiction pursuant to: (a) 12 U.S.C. § 1789(a)(2), which provides that "[a]ll suits of a civil nature at common law or in equity to which the [NCUA Board] shall be a party shall be deemed to arise under the laws of the United States, and the United States district courts shall have original jurisdiction thereof, without regard to the amount in controversy"; and (b) 28 U.S.C. § 1345, which provides that "the district courts shall have original jurisdiction of all civil actions, suits or proceedings commenced by the United States, or by any agency or officer thereof expressly authorized to sue by Act of Congress."

21. Venue is proper in this District under Section 22 of the Securities Act, 15 U.S.C. § 77v(a) and/or 28 U.S.C. §1391(b)(1), because each Defendant is a resident of/conducts business in this District. This Court has personal jurisdiction over each Defendant they are residents of/conduct business in this District.

IV. MORTGAGE ORIGINATION AND THE PROCESS OF SECURITIZATION

22. RMBS are asset-backed securities. A pool or pools of residential mortgages are the assets that back or collateralize the RMBS certificates purchased by investors.

23. Because residential mortgages are the assets collateralizing RMBS, the

origination of mortgages commences the process that leads to the creation of RMBS. Originators decide whether to loan potential borrowers money to purchase residential real estate through a process called mortgage underwriting. The originator applies its underwriting standards or guidelines to determine whether a particular borrower is qualified to receive a mortgage for a particular property. The underwriting guidelines consist of a variety of metrics, including: the borrower's debt, income, savings, credit history and credit score; whether the property will be owner-occupied; and the LTV ratio, among other things. Loan underwriting guidelines are designed to ensure that: (1) the borrower has the means to repay the loan, (2) the borrower will likely repay the loan, and (3) the loan is secured by sufficient collateral in the event of default.

24. Historically, originators made mortgage loans to borrowers and held the loans on their own books for the duration of the loan. Originators profited as they collected monthly principal and interest payments directly from the borrower. Originators also retained the risk that the borrower would default on the loan.

25. This changed in the 1970s when the Government National Mortgage Association ("Ginnie Mae"), the Federal National Mortgage Association ("Fannie Mae"), and the Federal Home Loan Mortgage Corporation ("Freddie Mac") (collectively government sponsored enterprises or "GSEs") began purchasing "conforming" or "prime" loans —so-called because they conformed to guidelines set by the GSEs. The GSEs either sponsored the RMBS issuance (Ginnie Mae) or issued the RMBS themselves after purchasing the conforming loans (Fannie Mae and Freddie Mac). The GSEs securitized the mortgage loans by grouping mortgages into "loan pools," then repackaging the loan pools into RMBS where investors received the cash flow from the mortgage payments. The GSEs guarantee the monthly cash flow to investors on the

agency RMBS.

26. More recently, originators, usually working with investment banks, began securitizing "non-conforming loans"—loans originated (in theory) according to private underwriting guidelines adopted by the originators. Non-conforming loans are also known as "nonprime loans" or "private label" and include "Alt-A" and "subprime" loans. Despite the non-conforming nature of the underlying mortgages, the securitizers of such RMBS were able to obtain triple-A credit ratings by using "credit enhancement" (explained *infra*) when they securitized the non-conforming loans.

27. All of the loans collateralizing the RMBS at issue in this Complaint are non-conforming mortgage loans.

28. The issuance of RMBS collateralized by non-conforming loans peaked in 2006. The securitization process shifted the originators' focus from ensuring the ability of borrowers to repay their mortgages, to ensuring that the originator could process (and obtain fees from) an ever-larger loan volume for distribution as RMBS. This practice is known as "originate-to-distribute" ("OTD").

29. Securitization begins with a "sponsor" who purchases loans in bulk from one or more originators. The sponsor transfers title of the loans to an entity called the "depositor."

30. The depositor transfers the loans to a trust called the "issuing entity."

31. The issuing entity issues "notes" and/or "certificates," representing an ownership interest in the cash flow from the mortgage pool underlying the securities (*i.e.*, the principal and interest generated as borrowers make monthly payments on the mortgages in the pool).

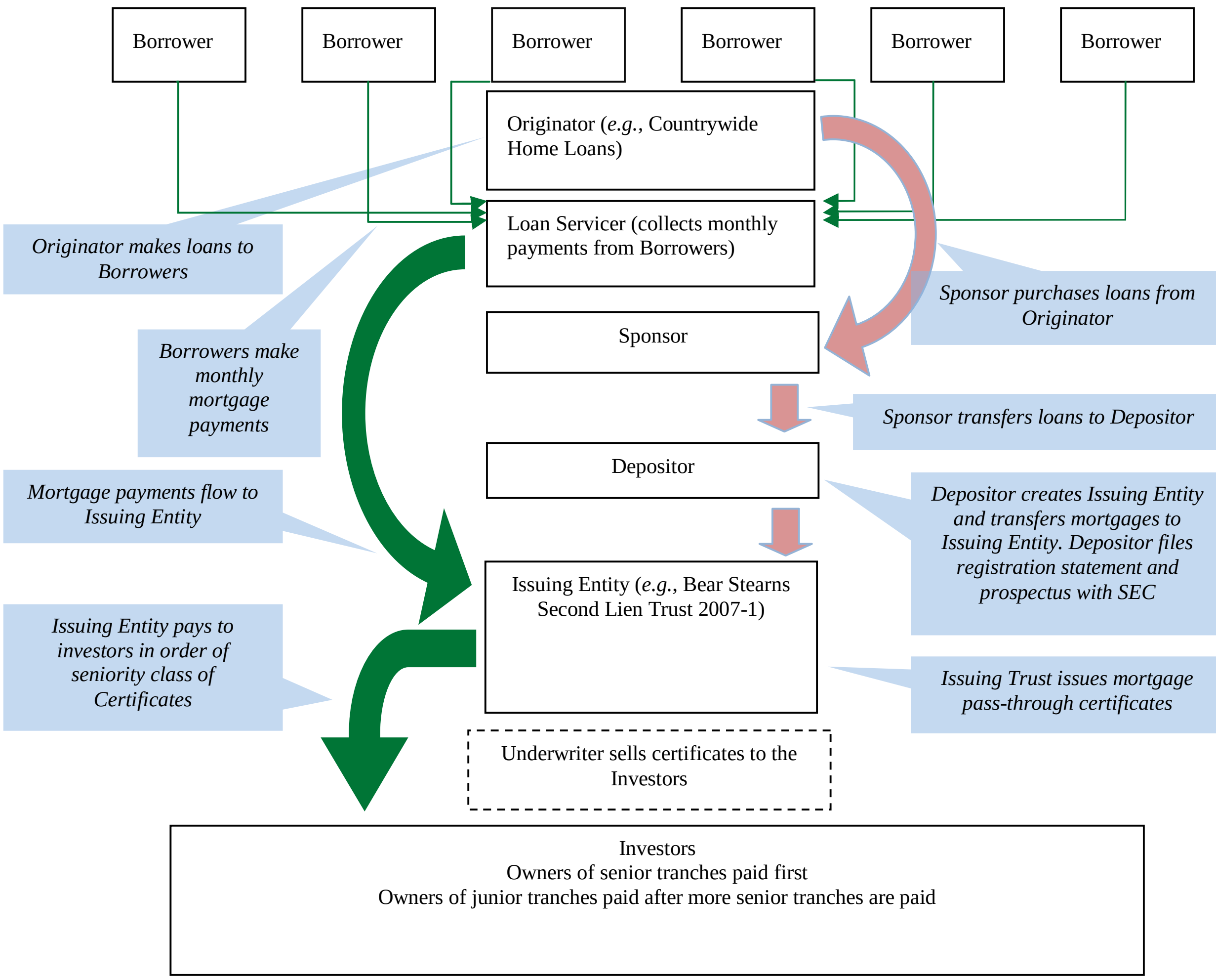
32. The depositor files required documents (such as registration statements and prospectuses) with the SEC so that the certificates can be offered to the public.

33. One or more "underwriters" then sell the notes or certificates to investors.

34. A loan "servicer" collects payments from borrowers on individual mortgages as part of a pool of mortgages, and the issuing entity allocates and distributes the income stream generated from the mortgage loan payments to the RMBS investors.

35. Figure 1 (*infra*) depicts a typical securitization process.

Figure 1
Illustration of the Securitization Process



36. Because securitization, as a practical matter, shifts the risk of default on the mortgage loans from the originator of the loan to the RMBS investor, the originator's adherence

to mortgage underwriting guidelines as represented in the offering documents with respect to the underlying mortgage loans is critical to the investors' ability to evaluate the expected performance of the RMBS.

V. RMBS CREDIT RATINGS AND CREDIT ENHANCEMENT

37. RMBS offerings are generally divided into slices or "tranches," each of which represents a different level of risk. RMBS certificates denote the particular tranches of the security purchased by the investor.

38. The credit rating for an RMBS reflects an assessment of the creditworthiness of that RMBS and indicates the level of risk associated with that RMBS. Standard & Poor's ("S&P") and Moody's Investors Service, Inc. ("Moody's") are the credit rating agencies that assigned credit ratings to the RMBS in this case.

39. The credit rating agencies use letter-grade rating systems as shown in Table 2 (*infra*).

Table 2
Credit Ratings

Moody's	S&P	Definitions	Grade Type
Aaa	AAA	**Prime (Maximum Safety)**	**INVESTMENT GRADE**
Aa1 Aa2 Aa3	AA+ AA AA-	**High Grade, High Quality**	
A1 A2 A3	A+ A A-	**Upper Medium Grade**	
Baa1 Baa2 Baa3	BBB+ BBB BBB-	**Medium Grade**	
Ba2 Ba3	BB BB-	**Non-Investment Grade, or Speculative**	**SPECULATIVE GRADE**
B1 B2 B3	B+ B B-	**Highly Speculative, or Substantial Risk**	
Caa2 Caa3	CCC+	**In Poor Standing**	
Ca	CCC CCC-	**Extremely Speculative**	

Moody’s	S&P	Definitions	Grade Type
C	-	**May be in Default**	
-	D	**Default**	

40. Moody’s purportedly awards the coveted “Aaa” rating to structured finance products that are “of the highest quality, with minimal credit risk.” Moody’s Investors Services, Inc., Moody’s Rating Symbols & Definitions at 6 (August 2003), *available at* http://www.rbcpa.com/Moody's_ratings_and_definitions.pdf. Likewise, S&P rates a product “AAA” when the “obligor’s capacity to meet its financial commitment on the obligation is extremely strong.” Standard & Poor’s, Ratings Definitions, *available at* https://www.globalcreditportal.com/ratingsdirect/renderArticle.do?articleId=1019442&SctArtId=147045&from=CM&nsl_code=LIME.

41. In fact, RMBS could not be sold unless they received one of the highest “investment grade” ratings on most tranches from one or more credit rating agencies, because the primary market for RMBS is institutional investors, such as the Credit Unions, which are generally limited to buying only securities with the highest credit ratings. *See, e.g.*, NCUA Credit Risk Management Rule, 12 C.F.R. § 704.6(d)(2) (2010) (prohibiting corporate credit unions from investing in securities rated below AA-); *but see, e.g.*, Alternatives to the Use of Credit Ratings, 77 Fed. Reg. 74,103 (Dec. 13, 2012) (to be codified at 12 C.F.R. pts. 703, 704, 709, and 742).

42. While the pool of mortgages underlying the RMBS may not have been sufficient to warrant a triple-A credit rating, various forms of “credit enhancement” were used to obtain a triple-A credit rating on the higher tranches of RMBS.

43. One form of credit enhancement is “structural subordination.” The tranches, and their risk characteristics relative to each other, are often analogized to a waterfall. Investors in

the higher or "senior" tranches are the first to be paid as income is generated when borrowers make their monthly payments. After investors in the most senior tranche are paid, investors in the next subordinate or "junior" tranche are paid, and so on down to the most subordinate or lowest tranche.

44. In the event mortgages in the pool default, the resulting loss is absorbed by the subordinated tranches first.

45. Accordingly, senior tranches are deemed less risky than subordinate tranches and therefore receive higher credit ratings.

46. Another form of credit enhancement is overcollateralization. Overcollateralization is the inclusion of a higher dollar amount of mortgages in the pool than the par value of the security. The spread between the value of the pool and the par value of the security acts as a cushion in the event of a shortfall in expected cash flow.

47. Other forms of credit enhancement include "excess spread," monoline insurance, obtaining a letter of credit, and "cross-collateralization." "Excess spread" is the spread between the interest rate paid to the purchasers of the RMBS relative to the higher interest rate received on the cash flow from the underlying mortgages. Monoline insurance, also known as "wrapping" the deal, involves purchasing insurance to cover losses from any defaults. Finally, some RMBS are "cross-collateralized," *i.e.*, when a loan group in an RMBS experiences rapid prepayments or disproportionately high realized losses, principal and interest collected from another tranche is applied to pay principal or interest, or both, to the senior certificates in the loan group experiencing rapid prepayment or disproportionate losses.

VI. THE CREDIT UNIONS' PURCHASES

48. The Credit Unions purchased only the highest-rated tranches of RMBS. All but

one were rated triple-A at the time of issuance. These securities have since been downgraded below investment grade just a few years after they were sold (*see infra* Table 3).

Table 3
Credit Ratings for the Credit Unions' RMBS Purchases

CUSIP	ISSUING ENTITY	PURCHASER	Original Rating S&P	Original Rating Moody's	First Downgrade Below Investment Grade S&P	First Downgrade Below Investment Grade Moody's	Recent Rating S&P	Recent Rating Moody's
07386HXN6	Bear Stearns ALT-A Trust 2005-9	Members United	AAA	Aaa	B- 9/2/2009	Caa3 12/17/2010	CCC 2/16/2010	Caa3 12/17/2010
07401WAA7	Bear Stearns Second Lien Trust 2007-1	Southwest/ Members United	AAA	Aaa	CCC 8/4/2009	Ba3 4/13/2009	NR 12/10/2012	C 11/10/2010
07401WAP4	Bear Stearns Second Lien Trust 2007-1, Groups II and III	Southwest	AAA	Aaa	CCC 4/24/2008	Ca 7/28/2008	NR 12/10/2012	C 11/10/2010
16165WAA4	ChaseFlex Trust Series 2007-2	Southwest	AAA	Aaa	CCC 7/24/2009	B3 1/29/2009	CCC 7/24/2009	Caa2 10/20/2010
16165WAB2	ChaseFlex Trust Series 2007-2	Southwest	AAA	Aaa	CCC 7/24/2009	Ca 1/29/2009	CCC 7/24/2009	C 10/20/2010
16165AAE4	ChaseFlex Trust Series 2007-3	Members United	AAA	Aaa	CCC 7/24/2009	Ca 1/29/2009	CC 2/16/2010	C 10/20/2010
16165AAD6	ChaseFlex Trust Series 2007-3	Members United	AAA	Aaa	BB- 7/24/2009	Caa1 1/29/2009	CCC 2/16/2010	Caa3 10/20/2010
16165YAB8	ChaseFlex Trust Series 2007-M1	Members United	AAA	Aaa	B 10/27/2008	Caa2 1/29/2009	D 12/27/2011	Ca 10/20/2010
361856ER4	GMACM Home Equity Loan Trust 2006-HE1	Southwest/ Members United	AAA	Aaa	BB 5/13/2008	B1 8/6/2008	NR 12/10/2012	Caa2 5/21/2010
38012EAC9	GMACM Home Equity Loan Trust 2006-HE5	Members United	AAA	Aaa	BB 3/19/2010	B1 10/29/2008	BB*- 3/29/2013	Caa1 5/21/2010
45254NNB9	Impac CMB Trust Series 2005-2	Members United	AA+	Aa1	CCC 8/19/2009	Ba1 2/20/2009	CCC 11/9/2012	Caa2 1/10/2013
45254NQG5	Impac CMB Trust Series 2005-6	Southwest	AAA	Aaa	CCC 8/4/2009	Ba3 4/13/2009	CC 4/21/2010	Caa2 5/11/2010
46628GAE9	J.P. Morgan Alternative Loan Trust 2006-A2	Southwest	AAA	Aaa	CCC 7/24/2009	Caa2 1/29/2009	D 9/25/2012	C 9/17/2010

CUSIP	ISSUING ENTITY	PURCHASER	Original Rating S&P	Original Rating Moody's	First Downgrade Below Investment Grade S&P	First Downgrade Below Investment Grade Moody's	Recent Rating S&P	Recent Rating Moody's
466287AA7	J.P. Morgan Alternative Loan Trust 2007-A1	Southwest	AAA	Aaa	CCC 7/24/2009	Caa2 1/29/2009	NR 12/10/2012	Ca 9/17/2010
466287AE9	J.P. Morgan Alternative Loan Trust 2007-A1	Members United	AAA	Aaa	B 10/6/2008	Ba3 7/17/2008	NR 12/10/2012	C 9/17/2010
466278AE8	J.P. Morgan Alternative Loan Trust 2007-A2	Southwest	AAA	Aaa	B 9/1/2009	Caa2 1/29/2009	CCC 3/10/2010	Caa1 7/26/2013
466275AA2	J.P. Morgan Alternative Loan Trust 2007-S1	Southwest/ Members United	AAA	Aaa	CCC 8/11/2011	B3 1/29/2009	CCC 8/11/2011	Caa3 9/17/2010
71085PDD2	People's Choice Home Loan Securities Trust Series 2005-4	Southwest	AAA	Aaa	B- 9/17/2009	Caa2 7/21/2010	D 6/25/2013	Caa2 7/21/2010
785778PF2	SACO I Trust 2006-2	Southwest	AAA	Aaa	CCC 8/4/2009	Ba3 4/13/2009	NR 12/10/2012	C 9/2/2010
785778PG0	SACO I Trust 2006-2	Members United	AAA	Aaa	CCC 8/4/2009	Ba3 4/13/2009	NR 12/10/2012	C 9/2/2010
78577PAA1	SACO I Trust 2006-7	Southwest	AAA	Aaa	B 12/20/2007	B2*- 4/4/2008	NR 12/10/2012	C 9/2/2010
785813AA4	SACO I Trust 2006-8	Southwest	AAA	Aaa	CC 8/4/2009	Ba3 4/13/2009	NR 12/10/2012	Ca 9/2/2010
78577NAG3	SACO I Trust 2006-12	Members United	AAA	Aaa	B 8/26/2008	B3* 12/4/2008	CC 6/22/2009	Ca 9/2/2010
784208AD2	SG Mortgage Securities Trust 2006-FRE2	Southwest	AAA	Aaa	B 3/27/2008	Caa1 10/17/2008	CCC 8/4/2009	Ca 5/5/2010
86359LSM2	Structured Asset Mortgage Investments II Trust 2006-AR2	Members United	AAA	Aaa	B- 10/12/2009	Ba1 2/23/2009	CCC 2/16/2010	Caa3 12/14/2010

49. At the time of purchase, the Credit Unions were not aware of the untrue statements or omissions of material facts in the Offering Documents of the RMBS. If the Credit Unions had known about the Originators' pervasive disregard of underwriting standards—contrary to the representations in the Offering Documents—they would not have purchased the certificates.

50. The securities' substantial loss of market value has injured the Credit Unions and the NCUA Board.

VII. THE ORIGINATORS SYSTEMATICALLY DISREGARDED THE UNDERWRITING GUIDELINES STATED IN THE OFFERING DOCUMENTS

51. The performance and value of RMBS are largely contingent upon borrowers repaying their mortgages. The loan underwriting guidelines ensure that the borrower has the means to repay the mortgage and that the RMBS is secured by sufficient collateral in the event of reasonably anticipated defaults on the underlying mortgage loans.

52. With respect to RMBS collateralized by loans written by originators who systematically disregarded their stated underwriting standards, the following pattern is present:

a. a surge in borrower delinquencies and defaults on the mortgages in the pools (*see infra* Section VII.A and Table 4);

b. actual gross losses to the underlying mortgage pools within the first 12 months after the offerings exceeded expected gross losses (*see infra* Section VII.B and Figure 2);

c. a high percentage of the underlying mortgage loans were originated for distribution, as explained below (*see infra* Table 5 and accompanying allegations); and

d. downgrades of the RMBS by credit rating agencies from high, investment-grade ratings when purchased to much lower ratings, including numerous "junk" ratings (*see infra* Section VII.C and *supra* Table 3).

53. These factors support a finding that the Originators failed to originate the mortgages in accordance with the underwriting standards stated in the Offering Documents.

54. This conclusion is further corroborated by reports that the Originators who

contributed mortgage loans to the RMBS at issue in this Complaint abandoned the underwriting standards described in the Offering Documents (*see infra* Section VII.D).

55. This conclusion is further corroborated by evidence from Bear Stearns's and J. P. Morgan's due diligence processes showing that RMBS underwritten by Bear Stearns and J.P. Morgan were collateralized by a substantial number of loans that were originated contrary to the applicable underwriting guidelines (*see infra* Section VII.E-F).

A. The Surge in Mortgage Delinquency and Defaults Shortly After the Offerings and the High OTD Practices of the Originators Demonstrate Systematic Disregard of Underwriting Standards

56. Residential mortgages are generally considered delinquent if no payment has been received for more than 30 days after payment is due. Residential mortgages where no payment has been received for more than 90 days (or three payment cycles) are generally considered to be in default.

57. The surge of delinquencies and defaults following the Offerings evidences the systematic flaws in the Originators' underwriting process (*see infra* Table 4).

58. The Offering Documents reported zero or near zero delinquencies and defaults at the time of the Offerings (*see infra* Table 4).

59. The pools of mortgages collateralizing the RMBS experienced delinquency and default rates up to 8.69% within the first three months, up to 18.58% at six months, and up to 33.96% at one year (*see infra* Table 4).

60. As of June 2013, 28.4% of the mortgage collateral across all the RMBS that the Credit Unions purchased was in delinquency, bankruptcy, foreclosure, or real estate owned ("REO"), which means that a bank or lending institution owns the property after a failed sale at a foreclosure auction (*see infra* Table 4).

61. Table 4 (*infra*) reflects the delinquency, foreclosure, bankruptcy, and REO rates on the RMBS as to which claims are asserted in this Complaint. The data presented in the last five columns are from the trustee reports (dates and page references are indicated in the parentheticals). The shadowed rows reflect the group of mortgages in the pool underlying the specific tranches purchased by the Credit Unions; however, some trustee reports include only the aggregate data. For RMBS with multiple groups, aggregate information on all the groups is included because the tranches are cross-collateralized.

Table 4
Delinquency and Default Rates for the Credit Unions' RMBS Purchases

<table>
<tr><th>CUSIP</th><th>ISSUING ENTITY</th><th>RATE AT CUT-OFF DATE FOR OFFERING</th><th>1 MO.</th><th>3 MOS.</th><th>6 MOS.</th><th>12 MOS.</th><th>RECENT</th></tr>
<tr><td></td><td>Bear Stearns ALT-A Trust 2005-9: Aggregate (P.S. dated Sep. 28, 2005)</td><td>Zero. (7)</td><td>3.25% (Oct., p.7)</td><td>6.07% (Dec., p.12)</td><td>4.42% (Mar., p.11)</td><td>3.85% (Sep., p.11)</td><td>28.31% (June 2013, p.11)</td></tr>
<tr><td>07386HXN6</td><td>Bear Stearns ALT-A Trust 2005-9: Group I *Class I-1A-1 in Group 1 (S-2)</td><td>Zero. (7)</td><td>5.62% (Oct., p.8)</td><td>8.63% (Dec., p.13)</td><td>6.47% (Mar., p.12)</td><td>7.94% (Sep., p.12)</td><td>32.69% (June 2013, p.12)</td></tr>
<tr><td></td><td>Bear Stearns ALT-A Trust 2005-9: Group II-1</td><td>Zero. (7)</td><td>2.06% (Oct., p.8)</td><td>2.94% (Dec., p.13)</td><td>4.72% (Mar., p.12)</td><td>2.98% (Sep., p.12)</td><td rowspan="6">27.3% (June 2013, p.12)</td></tr>
<tr><td></td><td>Bear Stearns ALT-A Trust 2005-9: Group II-2</td><td>Zero. (7)</td><td>3.08% (Oct., p.9)</td><td>7.97% (Dec., p.14)</td><td>2.96% (Mar., p.13)</td><td>2.05% (Sep., p.13)</td></tr>
<tr><td></td><td>Bear Stearns ALT-A Trust 2005-9: Group II-3</td><td>Zero. (7)</td><td>5.63% (Oct., p.9)</td><td>4.96% (Dec., p.14)</td><td>3.92% (Mar., p.13)</td><td>5.15% (Sep., p.13)</td></tr>
<tr><td></td><td>Bear Stearns ALT-A Trust 2005-9: Group II-4</td><td>Zero. (7)</td><td>1.61% (Oct., p.10)</td><td>8.63% (Dec., p.15)</td><td>5.41% (Mar., p.14)</td><td>3.27% (Sep., p.14)</td></tr>
<tr><td></td><td>Bear Stearns ALT-A Trust 2005-9: Group II-5</td><td>Zero. (7)</td><td>0.98% (Oct., p.10)</td><td>1.51% (Dec., p.15)</td><td>3.35% (Mar., p.14)</td><td>0.67% (Sep., p.14)</td></tr>
<tr><td></td><td>Bear Stearns ALT-A Trust 2005-9: Group II-6</td><td>Zero. (7)</td><td>0.61% (Oct., p.11)</td><td>2.4% (Dec., p.16)</td><td>2.54% (Mar., p.15)</td><td>1.4% (Sep., p.15)</td></tr>
</table>

CUSIP	ISSUING ENTITY	RATE AT CUT-OFF DATE FOR OFFERING	1 MO.	3 MOS.	6 MOS.	12 MOS.	RECENT
07401WAA7	Bear Stearns Second Lien Trust 2007-1: Group 1 *Class I-A in Group 1 (S-6)	Zero. (S-26)	5.07% (May, p.26)	8.62% (July, p.30)	13.94% (Oct., p.28)	18.80% (Apr., p.28)	8.76% (June 2013, p.14)
07401WAP4	Bear Stearns Second Lien Trust 2007-1, Groups II and III: Group 2 *Class II-A in Group 2 (S-8)	Zero. (S-36)	1.60% (May, p.27)	4.62% (July, p.31)	12.11% (Oct., p.29)	21.05% (Apr.,p.29)	16.81% (June 2013, p.15)
	Bear Stearns Second Lien Trust 2007-1, Groups II and III: Group 3	Zero. (S-36)	2.30% (May, p.28)	6.06% (July, p.32)	11.89% (Oct., p.30)	20.43% (Apr., p.30)	9.03% (June 2013, p.15)
16165WAA4 16165WAB2	ChaseFlex Trust Series 2007-2: Aggregate (P.S. dated Apr. 25, 2007)	Zero. (S-25)	.04% (May, p.S7)	3.28% (July, p.S7)	6.36% (Oct., p.S7)	10.33% (Apr., p.S7)	30.96% (June 2013, p.S10)
	ChaseFlex Trust Series 2007-3: Aggregate (P.S. dated June 27, 2007)		0% (July, p.S7)	4.09% (Sep., p.S7)	8.80% (Dec., p.S7)	15.77% (June, p.S17)	30.68% (June 2013, p.S11)
	ChaseFlex Trust Series 2007-3: Group 1	Zero. (S-32)	0% (July, p.S8)	2.26% (Sep., p.S9)	4.11% (Dec., p.S9)	Not Available	22.02% (June 2013, p.S13)
16165AAE4 16165AAD6	ChaseFlex Trust Series 2007-3: Group 2 *Classes II-A1 and II-A2 in Group 2 (S-6)	Zero. (S-32)	0% (July, p.S8)	5.59% (Sep., p.S9)	12.88% (Dec., p.S9)	Not Available	39.24% (June 2013, p.S14)
	ChaseFlex Trust Series 2007-M1: Aggregate (P.S. dated July 25, 2007)		0% (Aug., p.S7)	8.97% (Oct., p.S7)	13.44% (Jan., p.S7)	22.79% (July, p.S11)	34.44% (June 2013, p.S11)
16165YAB8	ChaseFlex Trust Series 2007-M1:Group 1 *Class 1-A2 in Group 1 (S-5)	Zero. (S-32)	0% (Aug., p.S9)	10.17% (Oct., p.S9)	15.25% (Jan., p.S9)	27.86% (July, p.S13)	34.78% (June 2013, p.S13)
	ChaseFlex Trust Series 2007-M1: Group 2	Zero. (S-32)	0% (Aug., p.S9)	7.81% (Oct., p.S9)	11.66% (Jan., p.S9)	17.85% (July, p.S14)	34.17% (June 2013, p.S14)
361856ER4	GMACM Home Equity Loan Trust 2006-HE1	Zero. (S-34)	Trustee Reports Unavailable				
38012EAC9	GMACM Home Equity Loan Trust 2006-HE5	Zero (S-32-33)	Trustee Reports Unavailable				

CUSIP	ISSUING ENTITY	RATE AT CUT-OFF DATE FOR OFFERING	1 MO.	3 MOS.	6 MOS.	12 MOS.	RECENT
	Impac CMB Trust Series 2005-2: Aggregate (P.S. dated Mar. 2, 2005)	Zero. (S-22)	0.16% (Apr., p.10)	1.51% (June, p.7)	2.01% (Sep, p.10)	3.85% (Mar., p.10)	18.64% (June 2013, p.11)
45254NNB9	Impac CMB Trust Series 2005-2: Group 1 *Class 1-M-1 in Group 1 (S-7)	Zero. (S-22)	0.18% (Apr., p.11)	1.67% (June, p.8)	2.24% (Sep, p.11)	4.11% (Mar., p.11)	21.05% (June 2013, p.12)
	Impac CMB Trust Series 2005-2: Group 2	Zero. (S-22)	0% (Apr., p.11)	0% (June, p.8)	0% (Sep, p.11)	1.9% (Mar., p.11)	0% (June 2013, p.12)
	Impac CMB Trust Series 2005-6: Aggregate (P.S. dated Sep. 8, 2005)	Zero. (The Mortgage Pool)	3.28% (Sep., p.7)	1.70% (Oct., p.7)	4.25% (Feb., p.10)	5.48% (Aug., p.10)	18.65% (June 2013, p.10)
45254NQG5	Impac CMB Trust Series 2005-6: Group 1 *Class 1-A-1 in Group 1 (The Bonds)	Zero. (The Mortgage Pool)	3.42% (Sep., p.8)	2.15% (Oct., p.8)	5.27% (Feb., p.11)	7.08% (Aug. p.11)	29.5% (June 2013, p.11)
45254NQG5	Impac CMB Trust Series 2005-6: Group 1B	Zero. (The Mortgage Pool)	1.63% (Sep., p.8)	0.77% (Oct., p.8)	2.87% (Feb., p.11)	2.88% (Aug., p.11)	16.56% (June 2013, p.11)
	Impac CMB Trust Series 2005-6: Group 2A	Zero. (The Mortgage Pool)	4.47% (Sep., p.9)	0.00% (Oct., p.9)	0.00% (Feb., p.12)	0.23% (Aug., p.12)	0.76% (June 2013, p.12)
	Impac CMB Trust Series 2005-6: Group 2B	Zero. (The Mortgage Pool)	0.00% (Sep., p.9)	0.00% (Oct., p.9)	0.00% (Feb., p.12)	0.00% (Aug., p.12)	0.00% (June 2013, p.12
	J.P. Morgan Alternative Loan Trust 2006-A2: Aggregate (P.S. dated Apr. 27, 2006)	Zero. (S-22)	1.53% (May, p.13)	3.0% (July, p.13)	4.21% (Oct., p.13)	7.73% (Apr., p.12)	34.08% (June 2013, p.12)
46628GAE9	J.P. Morgan Alternative Loan Trust 2006-A2: Group 1 *Class 1-A-5 in Group 1 (S-1)	Zero. (S-22)	2.15% (May, p.14)	3.93% (July, p.14)	6.02% (Oct., p.14)	10.68% (Apr., p.13)	37.1% (June 2013, p.13)
	J.P. Morgan Alternative Loan Trust 2006-A2: Group 2	Zero. (S-22)	1.19% (May, p.14)	2.16% (July, p.14)	2.54% (Oct., p.14)	5.01% (Apr., p.13)	26.66% (June 2013, p.13)
	J.P. Morgan Alternative Loan Trust 2006-A2: Group 3	Zero. (S-22)	0% (May, p.15)	2.02% (July, p.15)	0% (Oct., p.15)	2.81% (Apr., p.14)	24.69% (June 2013, p.14)

CUSIP	ISSUING ENTITY	RATE AT CUT-OFF DATE FOR OFFERING	1 MO.	3 MOS.	6 MOS.	12 MOS.	RECENT
	J.P. Morgan Alternative Loan Trust 2006-A2: Group 4	Zero. (S-22)	0.95% (May, p.15)	2.39% (July, p.15)	5.4% (Oct., p.15)	7.52% (Apr., p.14)	33.75% (June 2013, p.14)
	J.P. Morgan Alternative Loan Trust 2006-A2: Group 5	Zero. (S-22)	1.28% (May, p.16)	1.8% (July, p.16)	2.31% (Oct., p.16)	5.44% (Apr., p.15)	45.5% (June 2013, p.15)
	J.P. Morgan Alternative Loan Trust 2007-A1: Aggregate (P.S. dated Feb. 26, 2007)		5.13% (Mar., p.16)	5.11% (May, p.16)	8.05% (Aug., p.17)	21.02% (Feb., p.17)	35.94% (June 2013, p.15)
466287AA7 466287AE9	J.P. Morgan Alternative Loan Trust 2007-A1: Group 1A *Classes 1-A-5 and 1-A-1A in Group 1 (S-1)	Zero. (S-25)	5.64% (Mar., p.16)	6.56% (May, p.16)	10.91% (Aug., p.17)	25.94% (Feb., p.17)	43.10% (June 2013, p.15)
466287AA7 466287AE9	J.P. Morgan Alternative Loan Trust 2007-A1: Group 1B *Classes 1-A-5 and 1-A-1A in Group 1 (S-1)	Zero. (S-25)	5.62% (Mar., p.17)	4.24% (May, p.17)	5.95% (Aug., p.18)	19.75% (Feb., p.18)	22.78% (June 2013, p.16)
	J.P. Morgan Alternative Loan Trust 2007-A1: Group 2	Zero. (S-26)	4.71% (Mar., p.17)	2.12% (May, p.17)	3.29% (Aug., p.18)	12.43% (Feb., p.18)	29.54% (June 2013, p.16)
	J.P. Morgan Alternative Loan Trust 2007-A1: Group 3	Zero. (S-26)	2.63% (Mar., p.18)	3.03% (May, p.18)	3.62% (Aug., p.19)	11.82% (Feb., p.19)	33.65% (June 2013, p.17)
	J.P. Morgan Alternative Loan Trust 2007-A2: Aggregate (P.S. dated May 31, 200)		3.15% (June, p.16)	7.90% (Aug., p.16)	13.89% (Nov., p.16)	25.61% (May, p.16)	39.12% (June 2013, p.16)
466278AE8	J.P. Morgan Alternative Loan Trust 2007-A2: Group 1 *Class 1-2-A3 in Group 1 (S-1)	Zero. (S-28)	3.61% (June, p.17)	7.19% (Aug., p.17)	12.47% (Nov., p.17)	24.69% (May, p.17)	36.55% (June 2013, p.17)
	J.P. Morgan Alternative Loan Trust 2007-A2: Group 2	Zero. (S-30)	3.27% (June, p.17)	9.64% (Aug., p.17)	17.03% (Nov., p.17)	31.45% (May, p.17)	46.89% (June 2013, p.17)
	J.P. Morgan Alternative Loan Trust 2007-A2: Group 3	Zero. (S-30)	2.97% (June, p.18)	4.08% (Aug., p.18)	5.20% (Nov., p.18)	10.40% (May, p.18)	23.73% (June 2013, p.18)
	J.P. Morgan Alternative Loan Trust 2007-A2: Group 4	Zero. (S-30)	2.51% (June, p.18)	4.95% (Aug., p.18)	7.40% (Nov., p.18)	8.58% (May, p.18)	20.62% (June 2013, p.18)

CUSIP	ISSUING ENTITY	RATE AT CUT-OFF DATE FOR OFFERING	1 MO.	3 MOS.	6 MOS.	12 MOS.	RECENT
	J.P. Morgan Alternative Loan Trust 2007-A2: Group 5		0.00% (June, p.19)	0.68% (Aug., p.19)	4.77% (Nov., p.19)	1.85% (May, p.19)	26.03% (June 2013, p.19)
466275AA2	J.P. Morgan Alternative Loan Trust 2007-S1 (P.S. dated May 30, 2007)	Zero. (Description of the Mortgage Pool)	1.18% (June, p.9)	3.51% (Aug., p.9)	7.53% (Nov., p.9)	13.77% (May, p.9)	34.09% (June 2013, p.9)
	People's Choice Home Loan Securities Trust Series 2005-4: Aggregate (P.S. dated Oct. 24, 2005)	Zero. (S-22)	0.05% (Nov., p.7)	2.33% (Jan., p.9)	4.92% (Apr., p.9)	9.62% (Oct., p.10)	32.58% (June 2013, p.11)
71085PDD2	People's Choice Home Loan Securities Trust Series 2005-4: Group 1 FIXED *Class 1A2 in Group 1 (S-61)	Zero. (S-22)	0.00% (Nov., p.8)	1.82% (Jan., p. 10)	4.51% (Apr., p.10)	7.36% (Oct., p.11)	33.63% (June 2013, p.12)
71085PDD2	People's Choice Home Loan Securities Trust Series 2005-4: Group 1 ARM *Class 1A2 in Group 1 (S-61)	Zero. (S-22)	0.12% (Nov., p.8)	3.49% (Jan., p.10)	6.80% (Apr., p.10)	13.36% (Oct., p.11)	34.84% (June 2013, p.12)
	People's Choice Home Loan Securities Trust Series 2005-4: Group 2 FIXED	Zero. (S-22)	0.00% (Nov., p.9)	0.12% (Jan., p.11)	1.26% (Apr., p.11)	3.21% (Oct., p.12)	22.09% (June 2013, p.13)
	People's Choice Home Loan Securities Trust Series 2005-4: Group 2 ARM	Zero. (S-22)	0.00% (Nov., p.9)	1.71% (Jan., p.11)	3.82% (Apr., p.11)	7.39% (Oct., p.12)	37.31% (June 2013, p.13)
	SACO I Trust 2006-2: Aggregate (P.S. dated Jan. 26, 2006)	Zero. (S-29)	1.09% (Feb., p.14)	2.69% (Apr., p.14)	4.8% (July, p.14)	10.84% (Jan., p.14)	11.24% (June 2013, p.13)
785778PF2	SACO I Trust 2006-2: Group 1 *Class I-A in Group 1 (S-6)	Zero. (S-29)	1.54% (Feb., p.14)	2.92% (Apr., p.14)	5.24% (July, p.14)	10.98% (Jan., p.14)	13.09% (June 2013, p.13)
785778PG0	SACO I Trust 2006-2: Group 2 *Class II-A in Group 2 (S-7)	Zero. (S-29)	.55% (Feb., p.15)	2.42% (Apr., p.15)	4.27% (July, p.15)	10.68% (Jan., p.15)	9.29% (June 2013, p14)
78577PAA1	SACO I Trust 2006-7 (P.S. dated June 28, 2006)	Zero. (S-28)	.41% (July, p.10)	3.27% (Sep., p.10)	7.66% (Dec., p.10)	14.24% (June, p.10)	8.48% (June 2013, p.12)
785813AA4	SACO I Trust 2006-8 (P.S. dated Sep.14, 2006)	Zero. (S-23)	2.16% (Sep., p.11)	3.17% (Nov., p.11)	5.53% (Feb., p.11)	9.92% (Aug., p.12)	10.83% (June 2013, p.16)

CUSIP	ISSUING ENTITY	RATE AT CUT-OFF DATE FOR OFFERING	1 MO.	3 MOS.	6 MOS.	12 MOS.	RECENT
	SACO I Trust 2006-12: Aggregate (P.S. dated Dec.19, 2006)		1.07% (Dec., p.17)	3.45% (Feb., p.17)	6.14% (May, p.17)	14.02% (Nov., p.18)	11.15% (June 2013, p.18)
	SACO I Trust 2006-12: Group 1	Zero. (S-29)	0.35% (Dec., p.18)	4.52% (Feb., p.18)	6.10% (May, p.18)	11.7% (Nov., ps.18-19)	10.20% (June 2013, p.19)
78577NAG3	SACO I Trust 2006-12: Group 2 *Class II-A in Group 2 (S-7)	Zero. (S-30)	1.37% (Dec., p.19)	3.01% (Feb., p.19)	6.16% (May, p.19)	14.93% (Nov., p.19)	11.71% (June 2013, p.20)
	SG Mortgage Securities Trust 2006-FRE2: Aggregate (P.S. dated July 7, 2006)	No Mortgage Loan included in the Trust will be more than 59 days delinquent (S-31)	2.29% (Aug., p.10)	7.69% (Oct., p.10)	17.09% (Jan., p.9)	30.11% (July, p.9)	58.98% (June 2013, p.9)
	SG Mortgage Securities Trust 2006-FRE2: Group I	No Mortgage Loan included in the Trust will be more than 59 days delinquent (S-31)	1.9% (Aug., p.11)	7.7% (Oct., p.11)	17.67% (Jan., p.10)	30.62% (July, p.10)	61.64% (June 2013, p.10)
	SG Mortgage Securities Trust 2006-FRE2: Group I	No Mortgage Loan included in the Trust will be more than 59 days delinquent (S-31)	0.43% (Aug., p.11)	3.16% (Oct., p.11)	7.03% (Jan., p.10)	12.47% (July, p.10)	42.32% (June 2013, p.10)
784208AD2	SG Mortgage Securities Trust 2006-FRE2: Group II *Class A-2C in Group 2 (S-11)	No Mortgage Loan included in the Trust will be more than 59 days delinquent (S-31)	2.79% (Aug., p.12)	8.69% (Oct., p.12)	18.58% (Jan., p.11)	33.96% (July, p.11)	62.61% (June 2013, p.11)
784208AD2	SG Mortgage Securities Trust 2006-FRE2: Group II *Class A-2C in Group 2 (S-11)	No Mortgage Loan included in the Trust will be more than 59 days delinquent (S-31)	2.1% (Aug., p.12)	4.64% (Oct., p.12)	12.57% (Jan., p.11)	15.83% (July, p.11)	41.63% (June 2013, p.11)
86359LSM2	Structured Asset Mortgage Investments II Trust 2006-AR2 (P.S. dated Feb. 27, 2006)		1.82% (Mar., p.10)	1.8% (May, p.10)	2.83% (Aug., p.10)	5.93% (Feb., p.10)	56.62% (June 2013, p.10)

62. This early spike in delinquencies and defaults, which occurred almost immediately after these RMBS were purchased by the Credit Unions, was later discovered to be indicative of the Originators' systematic disregard of their stated underwriting guidelines.

63. The phenomenon of borrower default shortly after origination of the loans is known as "Early Payment Default." Early Payment Default evidences borrower misrepresentations and other misinformation in the origination process, resulting from the

systematic failure of the Originators to apply the underwriting guidelines described in the Offering Documents.

64. In January 2011, the Financial Stability Oversight Council ("FSOC"), chaired by United States Treasury Secretary Timothy Geithner, issued a report analyzing the effects of risk retention requirements in mortgage lending on the broader economy. *See* FIN. STABILITY OVERSIGHT COUNCIL, MACROECONOMIC EFFECTS OF RISK RETENTION REQUIREMENTS (2011) ("FSOC Risk Retention Report"). The FSOC Risk Retention Report focused on stabilizing the mortgage lending industry through larger risk retention requirements in the industry that can "incent better lending decisions" and "help to mitigate some of the pro-cyclical effects securitization may have on the economy." *Id*. at 2.

65. The FSOC Risk Retention Report observed that the securitization process often incentivizes poor underwriting by shifting the risk of default from the originators to the investors, while obscuring critical information concerning the actual nature of the risk. The FSOC Risk Retention Report stated:

> The securitization process involves multiple parties with varying incentives and information, thereby breaking down the traditional direct relationship between borrower and lender. The party setting underwriting standards and making lending decisions (the originator) and the party making structuring decisions (the securitizer) are often exposed to minimal or no credit risk. By contrast, the party that is most exposed to credit risk (the investor) often has less influence over underwriting standards and may have less information about the borrower. As a result, originators and securitizers that do not retain risk can, at least in the short run, maximize their own returns by lowering underwriting standards in ways that investors may have difficulty detecting. The originate-to-distribute model, as it was conducted, exacerbated this weakness by compensating originators and securitizers based on volume, rather than on quality.

Id. at 3.

66. Indeed, originators that wrote a high percentage of their loans for distribution were more likely to disregard underwriting standards, resulting in poorly performing mortgages,

in contrast to originators that originated and then held most of their loans.

67. High OTD originators profited from mortgage origination fees without bearing the risks of borrower default or insufficient collateral in the event of default. Divorced from these risks, high OTD originators were incentivized to push loan quantity over quality.

68. Table 5 (*infra*) shows the percentage of loans originated for distribution relative to all the loans made by the Originators for the years 2005, 2006 and 2007, for those Originators in this Complaint with high OTD percentages. The data was obtained from the Home Mortgage Disclosure Act database.

Table 5
Originator "Originate-to-Distribute" Percentages

Originator Name	OTD % 2005	OTD% 2006	OTD % 2007
American Home Mortgage Corp.	91.9	62.4	
American Home Mortgage Investment Corp.	100	100	100
Bear Stearns Residential Mortgage		0	87.7
Countrywide Home Loans, Inc.	98.5	96.5	98.4
Fremont Investment & Loan	91.2	85.2	94
GMAC Bank		81	85
GMAC Mortgage, LLC f/k/a GMAC Mortgage Corp.	89.4	85.1	91.8
GreenPoint Mortgage Funding Inc.	89	87.1	95.6
Impac Mortgage Holdings, Inc.	96.3	23.7	93.4
JPMorgan Chase Bank, N.A.	83	77.9	85.4
M&T Mortgage Corp.	73.1	70.7	
Metrocities Mortgage, LLC	99.9	100	100

Originator Name	OTD % 2005	OTD% 2006	OTD % 2007
Opteum Financial Services, LLC	92.9	86.2	98.3
People's Choice Home Loan, Inc.	83.4	87.8	
PHH Mortgage Corp.	96.3	92.9	85.6
PMC Bancorp.	97.9	92.4	73.5
SouthStar Funding, LLC	100	100	
SunTrust Mortgage, Inc.	62.6	71.1	74.4

B. The Surge in Actual Versus Expected Cumulative Gross Losses is Evidence of the Originators' Systematic Disregard of Underwriting Standards

69. The actual defaults in the mortgage pools underlying the RMBS the Credit Unions purchased exceeded expected defaults so quickly and by so wide a margin that a significant portion of the mortgages could not have been underwritten as represented in the Offering Documents.

70. Every month, the RMBS trustee reports the number and outstanding balance of all loans in the mortgage pools that have defaulted. The running total of this cumulative default balance is referred to as the "gross loss."

71. When defaulted loans are foreclosed upon, the proceeds from the foreclosures are distributed to the investors and any shortfall on the defaulted loan balances is realized as a loss. The running total of this cumulative realized loss (defaulted loan balance minus recovery in foreclosure) is referred to as the "net loss."

72. "Actual loss" is the economic loss the mortgage pool experiences *in fact*. So "actual gross loss" is the *actual* cumulative sum of the balance of the loans in default for a particular security. Likewise, "actual net loss" is the *actual* cumulative realized loss on defaulted

loans after foreclosure.

73. At the time a security is rated, the rating agency calculates an amount of "expected loss" using a model based on historical performance of similar securities. So "expected gross loss" is the *expected* cumulative sum of the balance of the loans in default for a particular security. Likewise, "expected net loss" is the *expected* cumulative realized loss on defaulted loans after foreclosure. The amount of expected net loss drives the credit ratings assigned to the various tranches of RMBS.

74. Each credit rating has a "rating factor," which can be expressed in multiples of the amount of credit enhancement over expected net loss (in equation form: CE/ENL = RF). Thus, the rating factor expresses how many times the expected net loss is covered by credit enhancement. A "triple-A" rated security would have a rating factor of "5," so would require credit enhancement of five times the amount of the expected net loss. A "double-A rating" would have a rating factor of "4," and thus would require credit enhancement equaling four times the expected net loss. A "single-A" rating would have a rating factor of "3" and would require credit enhancement of three times expected net loss. A "Baa" rating would require credit enhancement of 2—1.5 times expected net loss, and a "Ba" rating or lower requires some amount of credit enhancement less than 1.5 times expected net loss.

75. Accordingly, by working backwards from this equation, one can infer expected net loss in an already-issued offering. For example, assume there is a $100 million offering backed by $100 million of assets, with a triple-A rated senior tranche with a principal balance of $75 million. This means the non-senior tranches, in aggregate, have a principal balance of $25 million. The $25 million amount of the non-senior tranches in this hypothetical offering serves as the credit enhancement for the senior tranche. Therefore, on our hypothetical $100 million

offering, the expected net loss would be $5 million, which is the amount of the credit enhancement on the triple-A rated senior tranche—$25 million—divided by the rating factor for triple-A rated securities—5. The following equation illustrates: $25,000,000/5 = $5,000,000.

76. Expected gross loss can be then mathematically derived by applying an "expected recovery rate" to the expected net loss (EGL = ENL/(1 – ERR)).

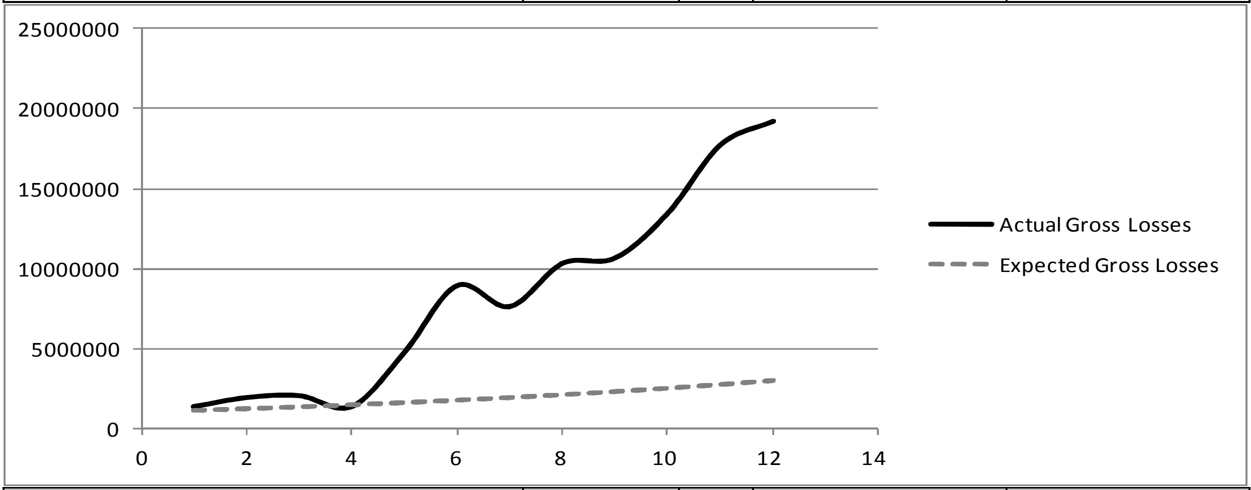
77. A comparison of actual gross losses to expected gross losses for a particular security can be made graphically by plotting the actual versus expected loss data on a line graph. Figure 2 (*infra*) is a series of such line graphs. Figure 2 illustrates the actual gross loss (again, actual defaults) the pools backing the RMBS purchased by the Credit Unions experienced in the first twelve months after issuance compared to the expected gross loss (again, expected defaults) for those pools during the same time period.

78. The actual gross loss data in Figure 2 (*infra*) was obtained from ABSNET, a resource for asset-backed securities related data. The expected gross losses were calculated by "grossing up" the rating-implied expected net losses using an expected recovery rate of 85%.

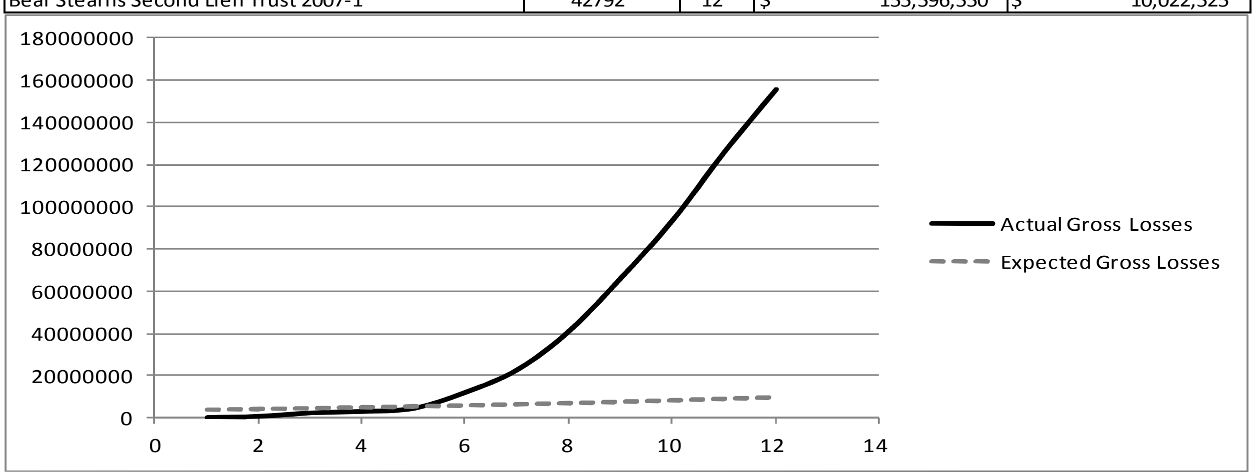
79. As the graphs show, the actual gross losses (the solid lines) far exceeded the expected gross losses (the dotted lines) for the period analyzed. That means that the actual balance of defaulted loans in the first twelve months following issuance far exceeded the expected balance of defaulted loans based on historical performance.

Figure 2
Illustration of Expected Gross Losses v. Actual Gross Losses for The Credit Unions' RMBS Purchases

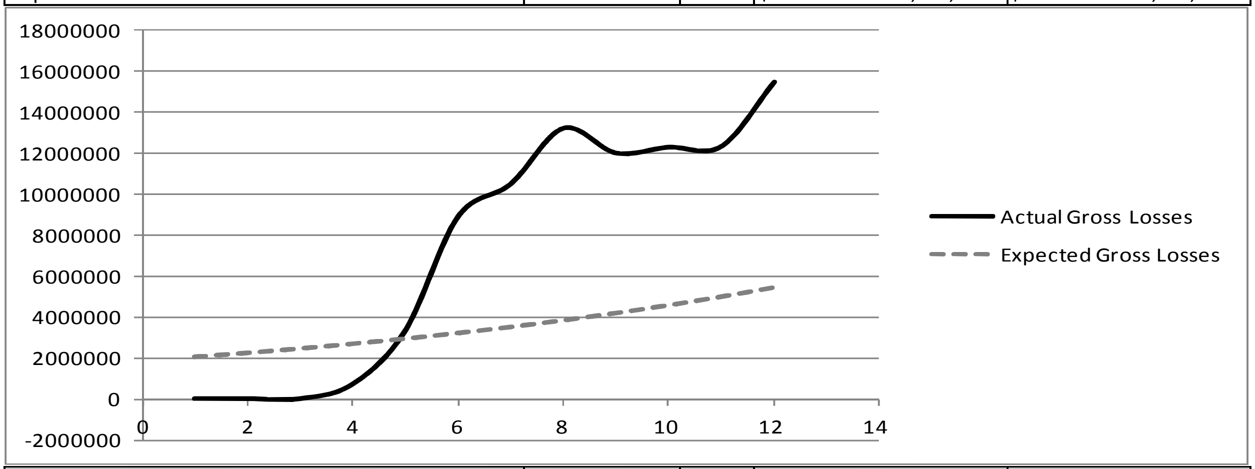
Issuing Entity	ABSNet Deal Id	Month	Actual Gross Losses	Expected Gross Losses
Bear Stearns Alt-A Trust 2005-9	35206	1	$ 1,402,578	$ 1,138,743
Bear Stearns Alt-A Trust 2005-9	35206	2	$ 1,969,964	$ 1,243,792
Bear Stearns Alt-A Trust 2005-9	35206	3	$ 2,098,509	$ 1,358,311
Bear Stearns Alt-A Trust 2005-9	35206	4	$ 1,413,265	$ 1,483,113
Bear Stearns Alt-A Trust 2005-9	35206	5	$ 4,794,760	$ 1,619,069
Bear Stearns Alt-A Trust 2005-9	35206	6	$ 8,975,943	$ 1,767,118
Bear Stearns Alt-A Trust 2005-9	35206	7	$ 7,665,468	$ 1,928,263
Bear Stearns Alt-A Trust 2005-9	35206	8	$ 10,363,502	$ 2,103,581
Bear Stearns Alt-A Trust 2005-9	35206	9	$ 10,701,301	$ 2,294,218
Bear Stearns Alt-A Trust 2005-9	35206	10	$ 13,504,379	$ 2,501,396
Bear Stearns Alt-A Trust 2005-9	35206	11	$ 17,781,489	$ 2,726,413
Bear Stearns Alt-A Trust 2005-9	35206	12	$ 19,260,568	$ 2,970,641



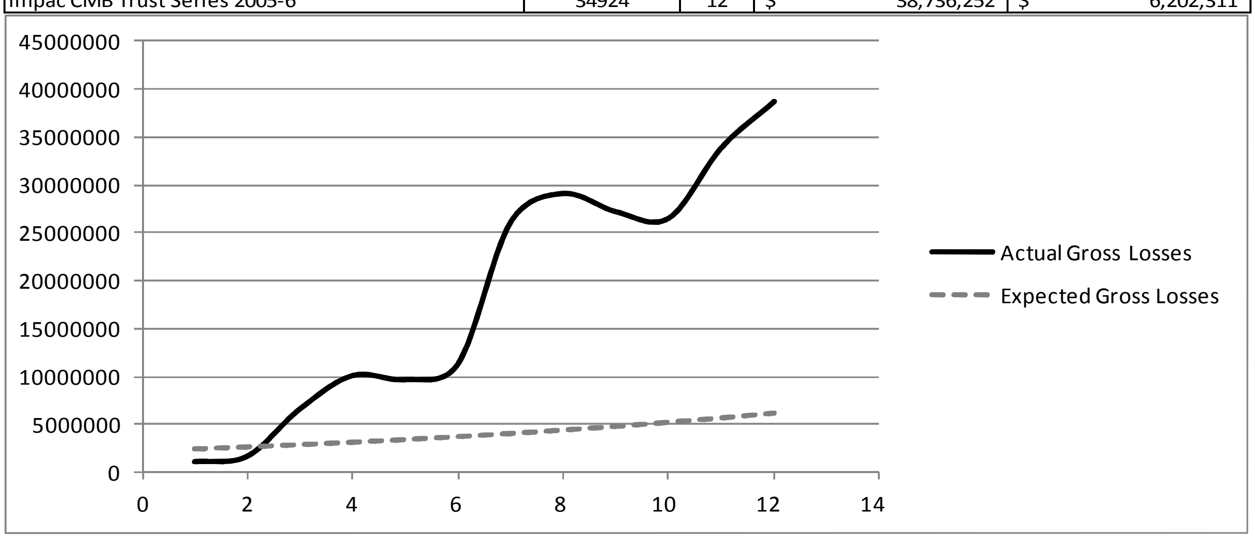
Issuing Entity	ABSNet Deal Id	Month	Actual Gross Losses	Expected Gross Losses
Bear Stearns Second Lien Trust 2007-1	42792	1	$ 257,152	$ 3,841,957
Bear Stearns Second Lien Trust 2007-1	42792	2	$ 881,158	$ 4,196,378
Bear Stearns Second Lien Trust 2007-1	42792	3	$ 2,477,106	$ 4,582,751
Bear Stearns Second Lien Trust 2007-1	42792	4	$ 3,181,023	$ 5,003,814
Bear Stearns Second Lien Trust 2007-1	42792	5	$ 4,706,484	$ 5,462,511
Bear Stearns Second Lien Trust 2007-1	42792	6	$ 12,313,864	$ 5,962,006
Bear Stearns Second Lien Trust 2007-1	42792	7	$ 22,981,885	$ 6,505,688
Bear Stearns Second Lien Trust 2007-1	42792	8	$ 41,267,636	$ 7,097,185
Bear Stearns Second Lien Trust 2007-1	42792	9	$ 66,356,463	$ 7,740,368
Bear Stearns Second Lien Trust 2007-1	42792	10	$ 93,652,671	$ 8,439,358
Bear Stearns Second Lien Trust 2007-1	42792	11	$ 125,933,000	$ 9,198,533
Bear Stearns Second Lien Trust 2007-1	42792	12	$ 155,596,550	$ 10,022,525



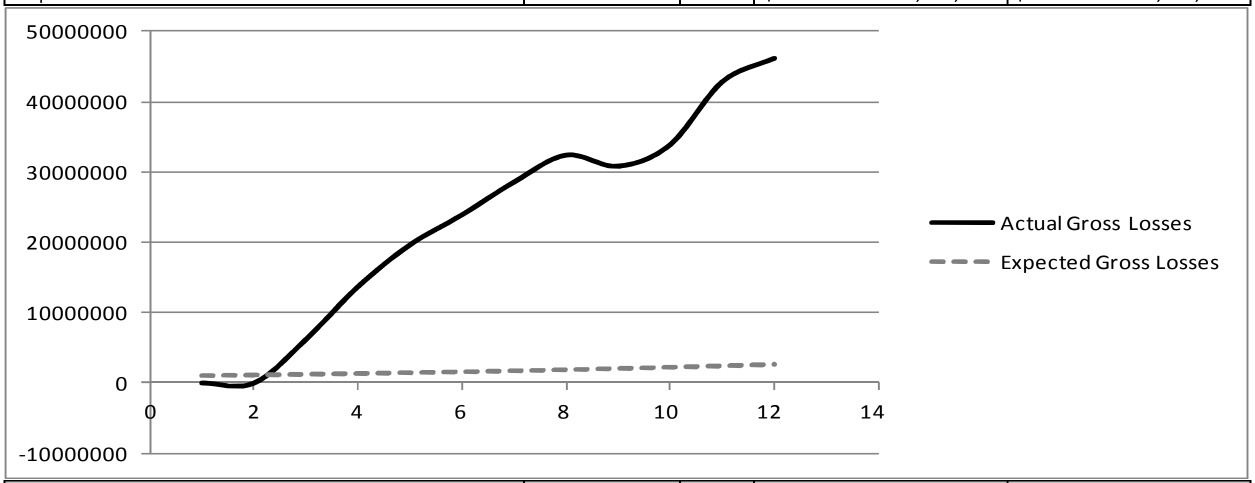
Issuing Entity	ABSNet Deal Id	Month	Actual Gross Losses	Expected Gross Losses
Impac CMB Trust Series 2005-2	33663	1	$ -	$ 2,088,023
Impac CMB Trust Series 2005-2	33663	2	$ -	$ 2,280,643
Impac CMB Trust Series 2005-2	33663	3	$ -	$ 2,490,628
Impac CMB Trust Series 2005-2	33663	4	$ 713,124	$ 2,719,467
Impac CMB Trust Series 2005-2	33663	5	$ 3,335,531	$ 2,968,759
Impac CMB Trust Series 2005-2	33663	6	$ 8,880,529	$ 3,240,224
Impac CMB Trust Series 2005-2	33663	7	$ 10,478,749	$ 3,535,704
Impac CMB Trust Series 2005-2	33663	8	$ 13,196,078	$ 3,857,170
Impac CMB Trust Series 2005-2	33663	9	$ 11,988,506	$ 4,206,726
Impac CMB Trust Series 2005-2	33663	10	$ 12,269,464	$ 4,586,613
Impac CMB Trust Series 2005-2	33663	11	$ 12,317,387	$ 4,999,208
Impac CMB Trust Series 2005-2	33663	12	$ 15,453,755	$ 5,447,030



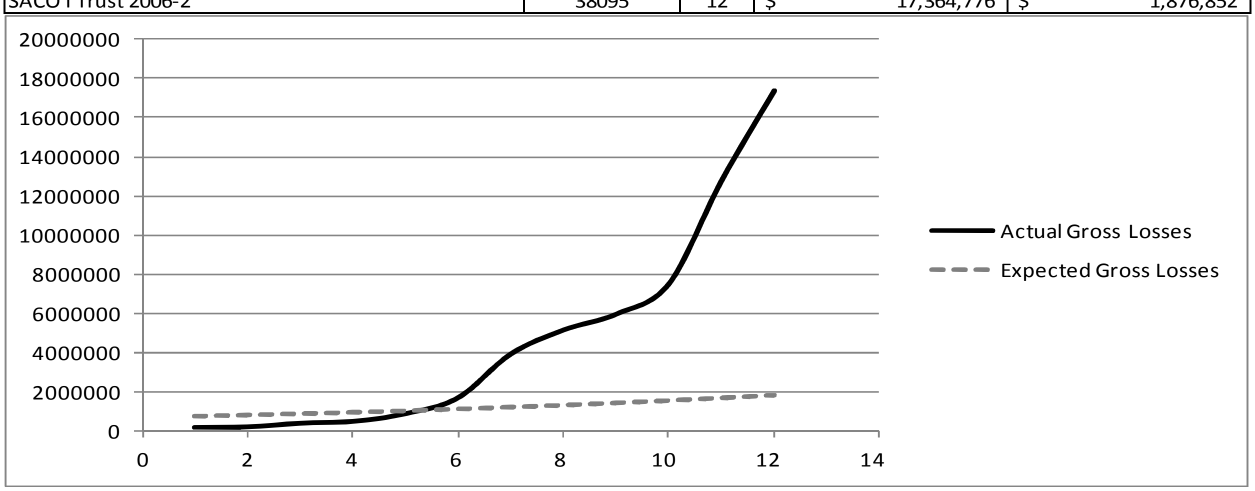
Issuing Entity	ABSNet Deal Id	Month	Actual Gross Losses	Expected Gross Losses
Impac CMB Trust Series 2005-6	34924	1	$ 1,100,192	$ 2,377,546
Impac CMB Trust Series 2005-6	34924	2	$ 1,679,375	$ 2,596,875
Impac CMB Trust Series 2005-6	34924	3	$ 6,623,602	$ 2,835,977
Impac CMB Trust Series 2005-6	34924	4	$ 10,105,651	$ 3,096,546
Impac CMB Trust Series 2005-6	34924	5	$ 9,675,631	$ 3,380,405
Impac CMB Trust Series 2005-6	34924	6	$ 11,325,136	$ 3,689,511
Impac CMB Trust Series 2005-6	34924	7	$ 26,144,922	$ 4,025,962
Impac CMB Trust Series 2005-6	34924	8	$ 29,117,804	$ 4,392,002
Impac CMB Trust Series 2005-6	34924	9	$ 27,213,326	$ 4,790,028
Impac CMB Trust Series 2005-6	34924	10	$ 26,545,572	$ 5,222,589
Impac CMB Trust Series 2005-6	34924	11	$ 33,916,384	$ 5,692,395
Impac CMB Trust Series 2005-6	34924	12	$ 38,736,252	$ 6,202,311



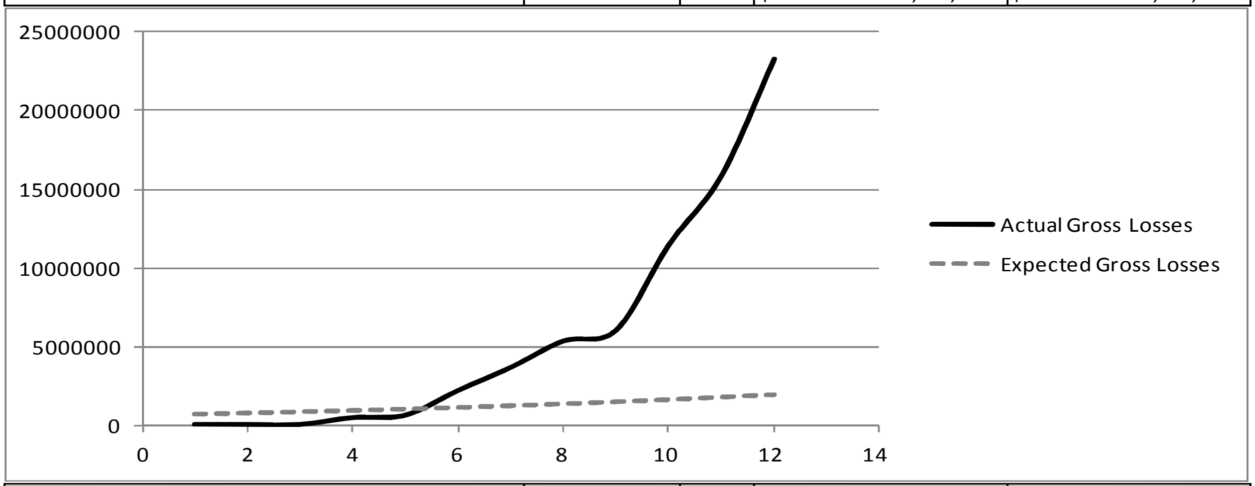
Issuing Entity	ABSNet Deal Id	Month	Actual Gross Losses	Expected Gross Losses
Peoples Choice Home Loan Securities Trust Series 2005-4	35428	1	$ -	$ 998,879
Peoples Choice Home Loan Securities Trust Series 2005-4	35428	2	$ -	$ 1,091,026
Peoples Choice Home Loan Securities Trust Series 2005-4	35428	3	$ 6,211,709	$ 1,191,480
Peoples Choice Home Loan Securities Trust Series 2005-4	35428	4	$ 13,716,563	$ 1,300,953
Peoples Choice Home Loan Securities Trust Series 2005-4	35428	5	$ 19,680,728	$ 1,420,211
Peoples Choice Home Loan Securities Trust Series 2005-4	35428	6	$ 23,953,246	$ 1,550,076
Peoples Choice Home Loan Securities Trust Series 2005-4	35428	7	$ 28,616,889	$ 1,691,429
Peoples Choice Home Loan Securities Trust Series 2005-4	35428	8	$ 32,448,339	$ 1,845,214
Peoples Choice Home Loan Securities Trust Series 2005-4	35428	9	$ 30,871,734	$ 2,012,436
Peoples Choice Home Loan Securities Trust Series 2005-4	35428	10	$ 33,936,371	$ 2,194,168
Peoples Choice Home Loan Securities Trust Series 2005-4	35428	11	$ 42,887,326	$ 2,391,548
Peoples Choice Home Loan Securities Trust Series 2005-4	35428	12	$ 46,238,647	$ 2,605,779



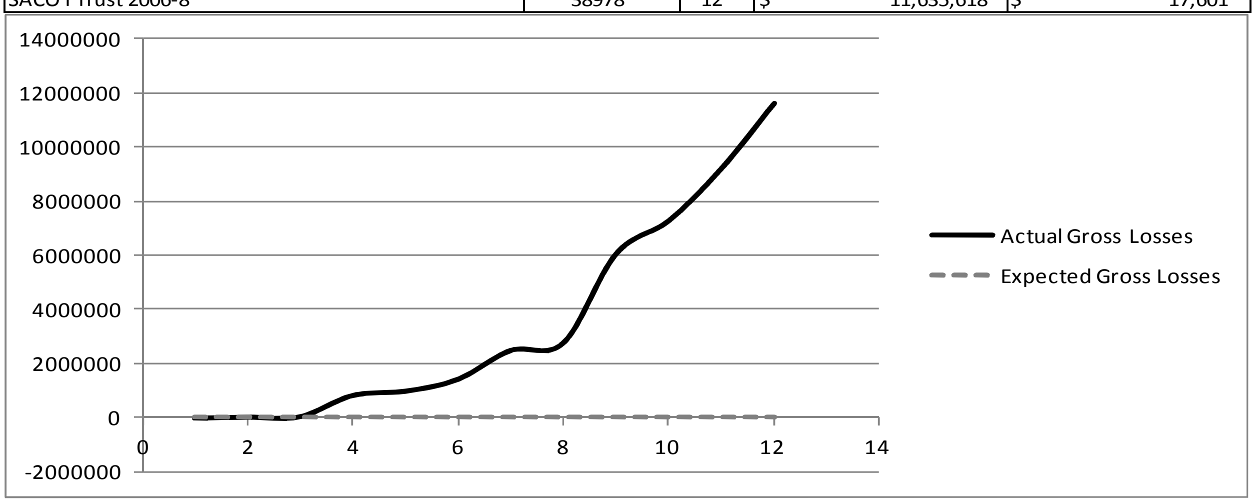
Issuing Entity	ABSNet Deal Id	Month	Actual Gross Losses	Expected Gross Losses
SACO I Trust 2006-2	38095	1	$ 149,318	$ 719,458
SACO I Trust 2006-2	38095	2	$ 172,385	$ 785,828
SACO I Trust 2006-2	38095	3	$ 362,939	$ 858,182
SACO I Trust 2006-2	38095	4	$ 455,987	$ 937,031
SACO I Trust 2006-2	38095	5	$ 851,843	$ 1,022,929
SACO I Trust 2006-2	38095	6	$ 1,664,416	$ 1,116,466
SACO I Trust 2006-2	38095	7	$ 3,897,380	$ 1,218,277
SACO I Trust 2006-2	38095	8	$ 5,124,371	$ 1,329,043
SACO I Trust 2006-2	38095	9	$ 5,937,272	$ 1,449,488
SACO I Trust 2006-2	38095	10	$ 7,487,438	$ 1,580,383
SACO I Trust 2006-2	38095	11	$ 12,755,580	$ 1,722,549
SACO I Trust 2006-2	38095	12	$ 17,364,776	$ 1,876,852



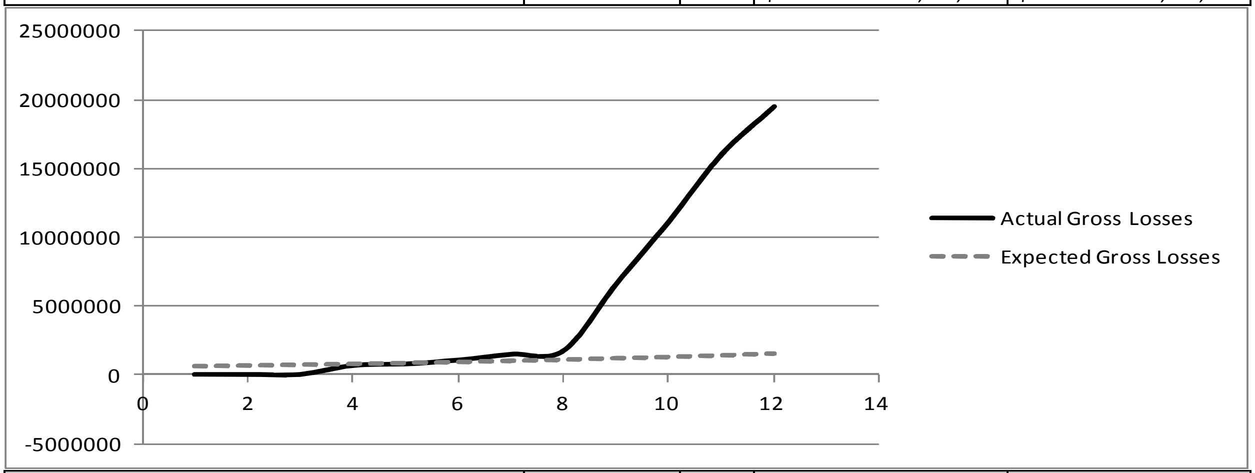
Issuing Entity	ABSNet Deal Id	Month	Actual Gross Losses	Expected Gross Losses
SACO I Trust 2006-7	38591	1	$ 50,341	$ 759,829
SACO I Trust 2006-7	38591	2	$ 50,319	$ 829,923
SACO I Trust 2006-7	38591	3	$ 52,579	$ 906,336
SACO I Trust 2006-7	38591	4	$ 489,527	$ 989,610
SACO I Trust 2006-7	38591	5	$ 643,456	$ 1,080,327
SACO I Trust 2006-7	38591	6	$ 2,218,253	$ 1,179,113
SACO I Trust 2006-7	38591	7	$ 3,683,120	$ 1,286,638
SACO I Trust 2006-7	38591	8	$ 5,362,291	$ 1,403,619
SACO I Trust 2006-7	38591	9	$ 6,057,943	$ 1,530,822
SACO I Trust 2006-7	38591	10	$ 11,479,483	$ 1,669,062
SACO I Trust 2006-7	38591	11	$ 15,890,736	$ 1,819,205
SACO I Trust 2006-7	38591	12	$ 23,313,097	$ 1,982,167



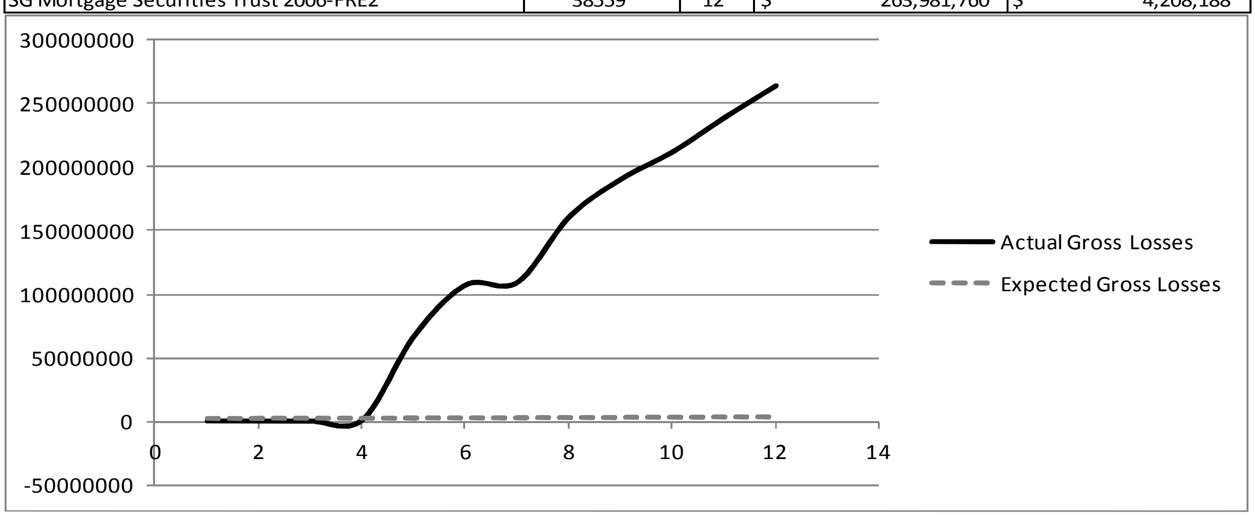
Issuing Entity	ABSNet Deal Id	Month	Actual Gross Losses	Expected Gross Losses
SACO I Trust 2006-8	38978	1	$ -	$ 6,747
SACO I Trust 2006-8	38978	2	$ 36,000	$ 7,369
SACO I Trust 2006-8	38978	3	$ 50,303	$ 8,048
SACO I Trust 2006-8	38978	4	$ 837,225	$ 8,787
SACO I Trust 2006-8	38978	5	$ 996,615	$ 9,593
SACO I Trust 2006-8	38978	6	$ 1,436,601	$ 10,470
SACO I Trust 2006-8	38978	7	$ 2,500,578	$ 11,425
SACO I Trust 2006-8	38978	8	$ 2,783,065	$ 12,463
SACO I Trust 2006-8	38978	9	$ 6,074,869	$ 13,593
SACO I Trust 2006-8	38978	10	$ 7,298,019	$ 14,820
SACO I Trust 2006-8	38978	11	$ 9,234,414	$ 16,154
SACO I Trust 2006-8	38978	12	$ 11,635,618	$ 17,601



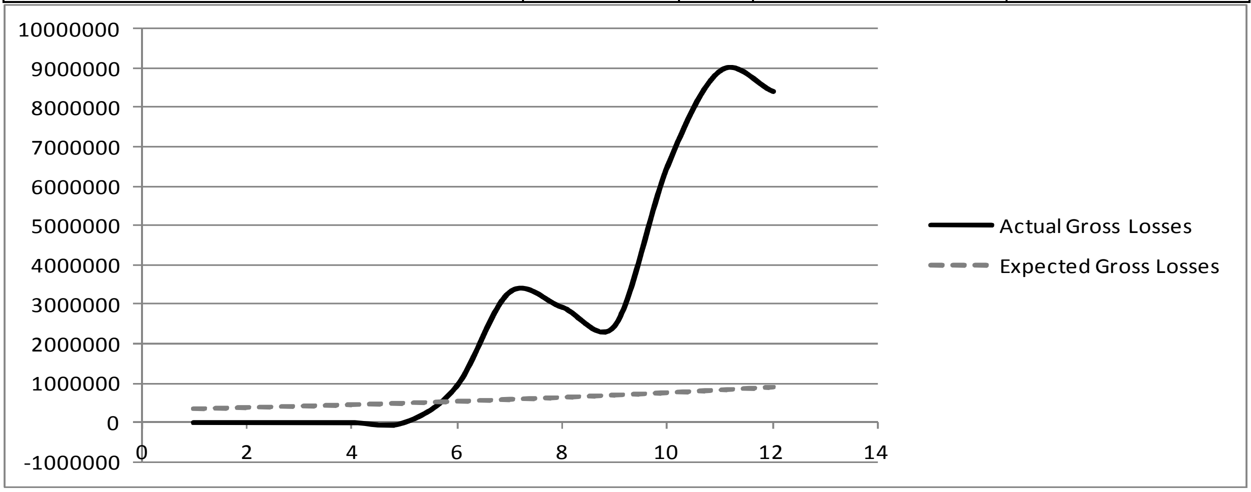
Issuing Entity	ABSNet Deal Id	Month	Actual Gross Losses	Expected Gross Losses
SACO I Trust 2006-12	39910	1	$ -	$ 615,409
SACO I Trust 2006-12	39910	2	$ -	$ 672,181
SACO I Trust 2006-12	39910	3	$ -	$ 734,070
SACO I Trust 2006-12	39910	4	$ 646,093	$ 801,517
SACO I Trust 2006-12	39910	5	$ 757,429	$ 874,991
SACO I Trust 2006-12	39910	6	$ 1,045,220	$ 955,001
SACO I Trust 2006-12	39910	7	$ 1,461,301	$ 1,042,089
SACO I Trust 2006-12	39910	8	$ 1,719,742	$ 1,136,835
SACO I Trust 2006-12	39910	9	$ 6,567,407	$ 1,239,861
SACO I Trust 2006-12	39910	10	$ 11,122,690	$ 1,351,826
SACO I Trust 2006-12	39910	11	$ 15,992,107	$ 1,473,432
SACO I Trust 2006-12	39910	12	$ 19,480,585	$ 1,605,420



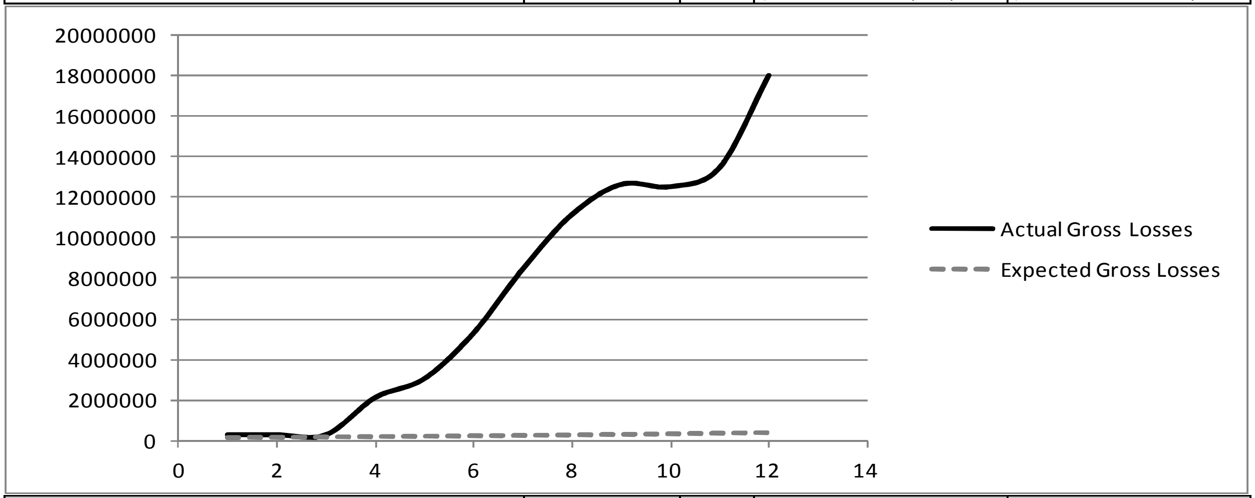
Issuing Entity	ABSNet Deal Id	Month	Actual Gross Losses	Expected Gross Losses
SG Mortgage Securities Trust 2006-FRE2	38559	1	$ -	$ 1,613,134
SG Mortgage Securities Trust 2006-FRE2	38559	2	$ -	$ 1,761,946
SG Mortgage Securities Trust 2006-FRE2	38559	3	$ -	$ 1,924,174
SG Mortgage Securities Trust 2006-FRE2	38559	4	$ 1,081,162	$ 2,100,967
SG Mortgage Securities Trust 2006-FRE2	38559	5	$ 66,988,180	$ 2,293,561
SG Mortgage Securities Trust 2006-FRE2	38559	6	$ 107,160,660	$ 2,503,286
SG Mortgage Securities Trust 2006-FRE2	38559	7	$ 109,277,324	$ 2,731,563
SG Mortgage Securities Trust 2006-FRE2	38559	8	$ 160,692,900	$ 2,979,917
SG Mortgage Securities Trust 2006-FRE2	38559	9	$ 190,368,615	$ 3,249,972
SG Mortgage Securities Trust 2006-FRE2	38559	10	$ 211,891,432	$ 3,543,459
SG Mortgage Securities Trust 2006-FRE2	38559	11	$ 238,784,041	$ 3,862,216
SG Mortgage Securities Trust 2006-FRE2	38559	12	$ 263,981,760	$ 4,208,188



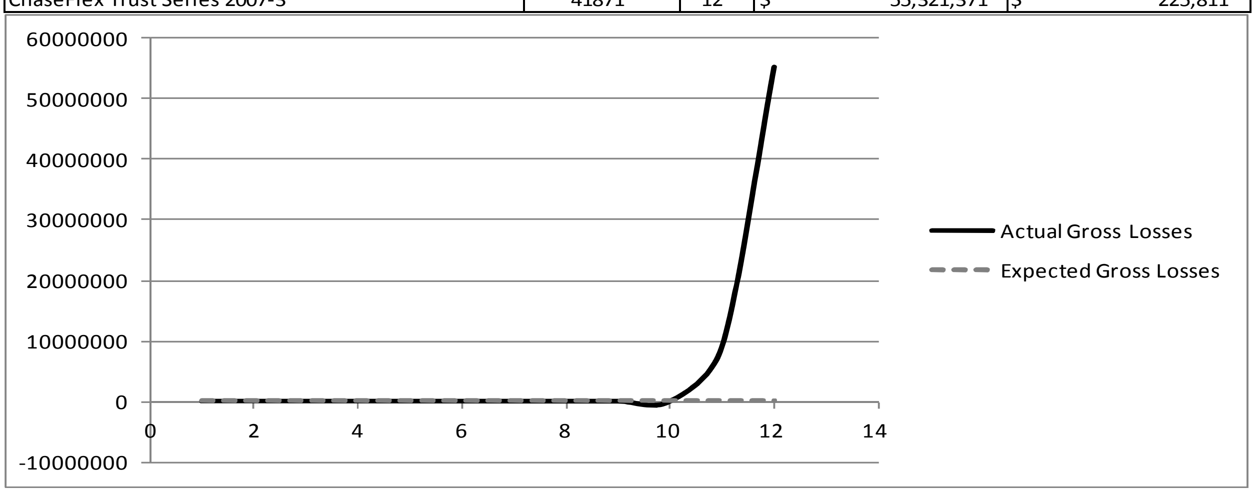
Issuing Entity	ABSNet Deal Id	Month	Actual Gross Losses	Expected Gross Losses
Structured Asset Mortgage Investments II Trust 2006-AR2	36924	1	$ -	$ 350,050
Structured Asset Mortgage Investments II Trust 2006-AR2	36924	2	$ -	$ 382,343
Structured Asset Mortgage Investments II Trust 2006-AR2	36924	3	$ -	$ 417,546
Structured Asset Mortgage Investments II Trust 2006-AR2	36924	4	$ -	$ 455,910
Structured Asset Mortgage Investments II Trust 2006-AR2	36924	5	$ -	$ 497,703
Structured Asset Mortgage Investments II Trust 2006-AR2	36924	6	$ 936,721	$ 543,213
Structured Asset Mortgage Investments II Trust 2006-AR2	36924	7	$ 3,307,214	$ 592,750
Structured Asset Mortgage Investments II Trust 2006-AR2	36924	8	$ 2,921,384	$ 646,642
Structured Asset Mortgage Investments II Trust 2006-AR2	36924	9	$ 2,467,369	$ 705,244
Structured Asset Mortgage Investments II Trust 2006-AR2	36924	10	$ 6,511,296	$ 768,931
Structured Asset Mortgage Investments II Trust 2006-AR2	36924	11	$ 8,921,023	$ 838,102
Structured Asset Mortgage Investments II Trust 2006-AR2	36924	12	$ 8,393,076	$ 913,177



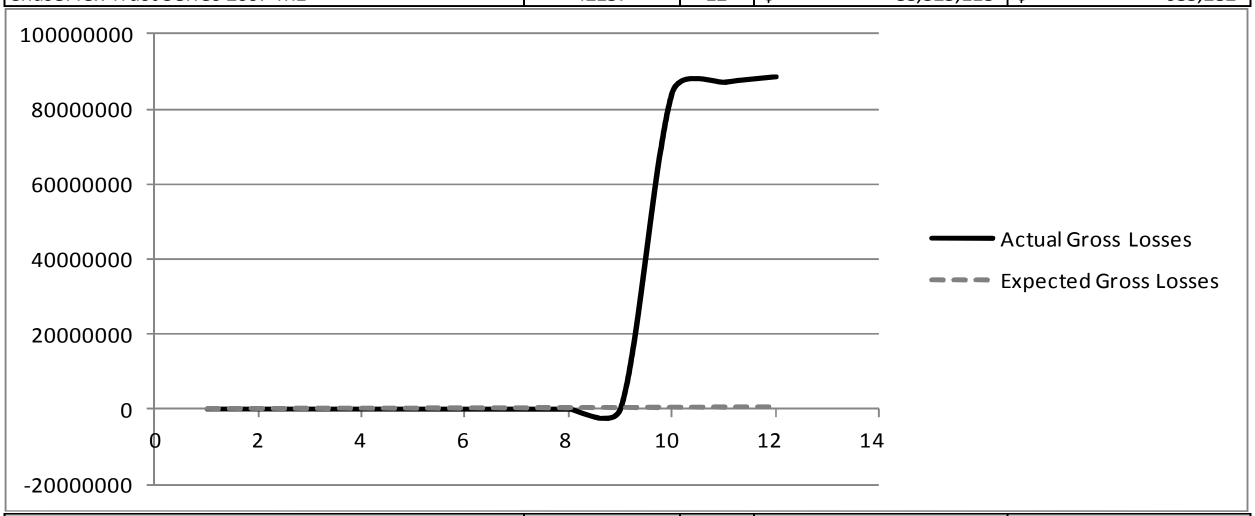
Issuing Entity	ABSNet Deal Id	Month	Actual Gross Losses	Expected Gross Losses
ChaseFlex Trust Series 2007-2	41494	1	$ 245,835	$ 136,513
ChaseFlex Trust Series 2007-2	41494	2	$ 245,626	$ 149,106
ChaseFlex Trust Series 2007-2	41494	3	$ 245,416	$ 162,834
ChaseFlex Trust Series 2007-2	41494	4	$ 2,079,957	$ 177,796
ChaseFlex Trust Series 2007-2	41494	5	$ 3,016,175	$ 194,094
ChaseFlex Trust Series 2007-2	41494	6	$ 5,275,840	$ 211,842
ChaseFlex Trust Series 2007-2	41494	7	$ 8,430,477	$ 231,160
ChaseFlex Trust Series 2007-2	41494	8	$ 11,126,353	$ 252,177
ChaseFlex Trust Series 2007-2	41494	9	$ 12,607,890	$ 275,031
ChaseFlex Trust Series 2007-2	41494	10	$ 12,493,505	$ 299,868
ChaseFlex Trust Series 2007-2	41494	11	$ 13,435,301	$ 326,843
ChaseFlex Trust Series 2007-2	41494	12	$ 17,985,679	$ 356,121



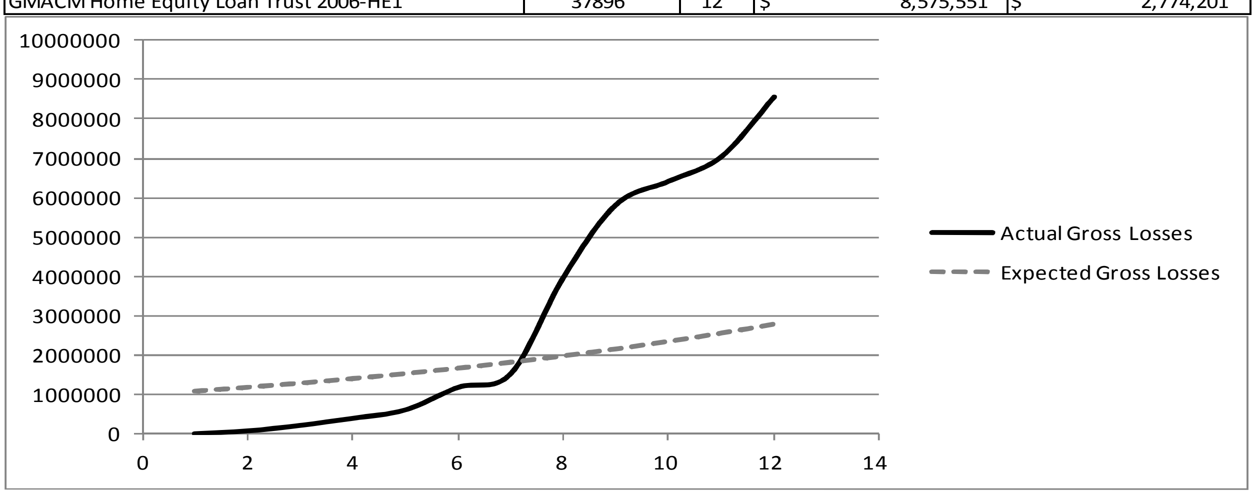
Issuing Entity	ABSNet Deal Id	Month	Actual Gross Losses	Expected Gross Losses
ChaseFlex Trust Series 2007-3	41871	1	$ -	$ 86,561
ChaseFlex Trust Series 2007-3	41871	2	$ -	$ 94,546
ChaseFlex Trust Series 2007-3	41871	3	$ -	$ 103,251
ChaseFlex Trust Series 2007-3	41871	4	$ -	$ 112,737
ChaseFlex Trust Series 2007-3	41871	5	$ -	$ 123,072
ChaseFlex Trust Series 2007-3	41871	6	$ -	$ 134,326
ChaseFlex Trust Series 2007-3	41871	7	$ -	$ 146,575
ChaseFlex Trust Series 2007-3	41871	8	$ -	$ 159,902
ChaseFlex Trust Series 2007-3	41871	9	$ -	$ 174,393
ChaseFlex Trust Series 2007-3	41871	10	$ -	$ 190,141
ChaseFlex Trust Series 2007-3	41871	11	$ 9,117,181	$ 207,246
ChaseFlex Trust Series 2007-3	41871	12	$ 55,321,371	$ 225,811



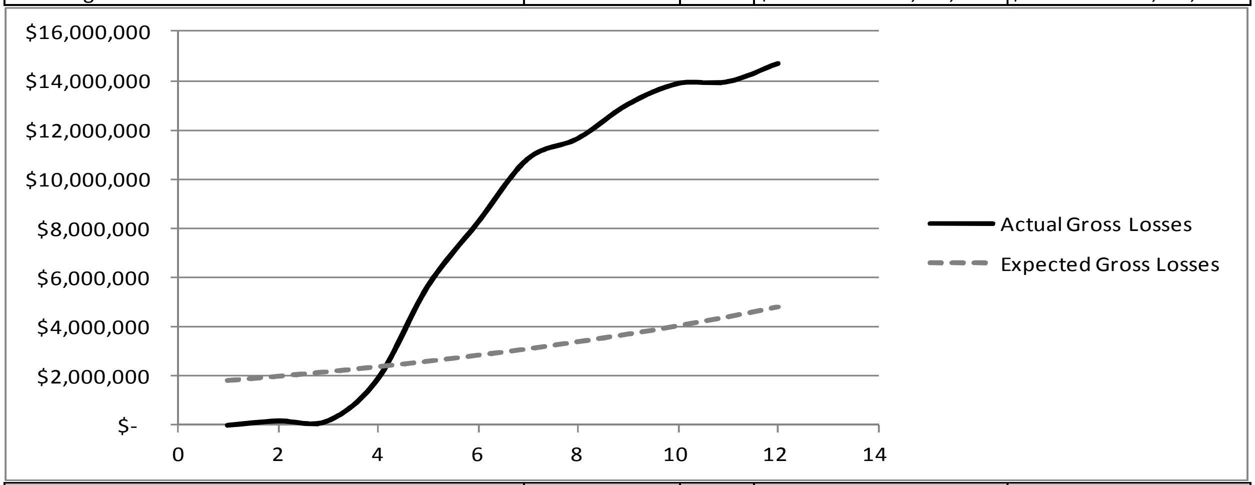
Issuing Entity	ABSNet Deal Id	Month	Actual Gross Losses	Expected Gross Losses
ChaseFlex Trust Series 2007-M1	42137	1	$ -	$ 261,924
ChaseFlex Trust Series 2007-M1	42137	2	$ -	$ 286,087
ChaseFlex Trust Series 2007-M1	42137	3	$ -	$ 312,428
ChaseFlex Trust Series 2007-M1	42137	4	$ -	$ 341,133
ChaseFlex Trust Series 2007-M1	42137	5	$ -	$ 372,405
ChaseFlex Trust Series 2007-M1	42137	6	$ -	$ 406,458
ChaseFlex Trust Series 2007-M1	42137	7	$ -	$ 443,523
ChaseFlex Trust Series 2007-M1	42137	8	$ -	$ 483,848
ChaseFlex Trust Series 2007-M1	42137	9	$ 344,000	$ 527,697
ChaseFlex Trust Series 2007-M1	42137	10	$ 84,511,548	$ 575,350
ChaseFlex Trust Series 2007-M1	42137	11	$ 87,061,559	$ 627,107
ChaseFlex Trust Series 2007-M1	42137	12	$ 88,525,118	$ 683,282



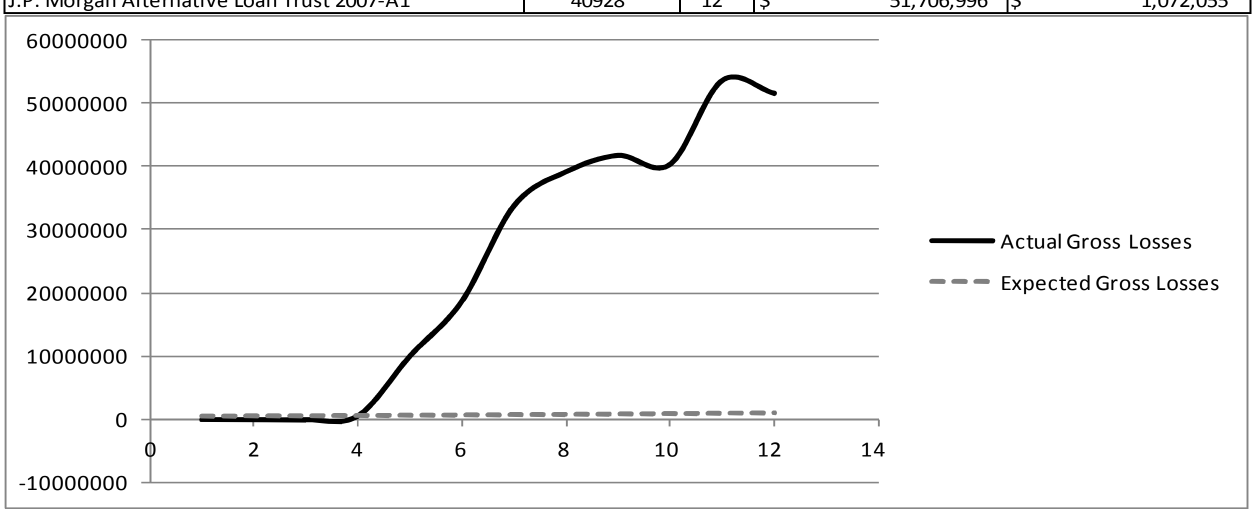
Issuing Entity	ABSNet Deal Id	Month	Actual Gross Losses	Expected Gross Losses
GMACM Home Equity Loan Trust 2006-HE1	37896	1	$ 19,787	$ 1,063,441
GMACM Home Equity Loan Trust 2006-HE1	37896	2	$ 88,610	$ 1,161,543
GMACM Home Equity Loan Trust 2006-HE1	37896	3	$ 228,549	$ 1,268,490
GMACM Home Equity Loan Trust 2006-HE1	37896	4	$ 410,918	$ 1,385,039
GMACM Home Equity Loan Trust 2006-HE1	37896	5	$ 622,107	$ 1,512,005
GMACM Home Equity Loan Trust 2006-HE1	37896	6	$ 1,194,984	$ 1,650,263
GMACM Home Equity Loan Trust 2006-HE1	37896	7	$ 1,542,732	$ 1,800,753
GMACM Home Equity Loan Trust 2006-HE1	37896	8	$ 3,991,633	$ 1,964,477
GMACM Home Equity Loan Trust 2006-HE1	37896	9	$ 5,840,622	$ 2,142,508
GMACM Home Equity Loan Trust 2006-HE1	37896	10	$ 6,434,193	$ 2,335,986
GMACM Home Equity Loan Trust 2006-HE1	37896	11	$ 7,062,115	$ 2,546,123
GMACM Home Equity Loan Trust 2006-HE1	37896	12	$ 8,575,551	$ 2,774,201



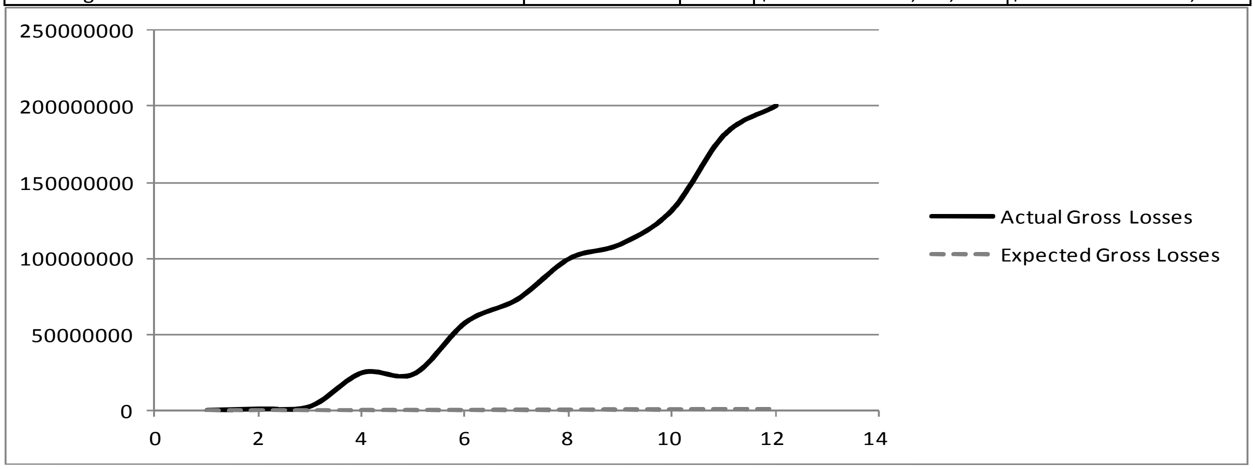
Issuing Entity	ABSNet Deal Id	Month	Actual Gross Losses	Expected Gross Losses
J.P. Morgan Alternative Loan Trust 2006-A2	37939	1	$ -	$ 1,837,349
J.P. Morgan Alternative Loan Trust 2006-A2	37939	2	$ 176,100	$ 2,006,844
J.P. Morgan Alternative Loan Trust 2006-A2	37939	3	$ 176,100	$ 2,191,620
J.P. Morgan Alternative Loan Trust 2006-A2	37939	4	$ 1,882,009	$ 2,392,986
J.P. Morgan Alternative Loan Trust 2006-A2	37939	5	$ 5,645,115	$ 2,612,350
J.P. Morgan Alternative Loan Trust 2006-A2	37939	6	$ 8,240,930	$ 2,851,224
J.P. Morgan Alternative Loan Trust 2006-A2	37939	7	$ 10,828,807	$ 3,111,231
J.P. Morgan Alternative Loan Trust 2006-A2	37939	8	$ 11,657,617	$ 3,394,104
J.P. Morgan Alternative Loan Trust 2006-A2	37939	9	$ 13,046,327	$ 3,701,695
J.P. Morgan Alternative Loan Trust 2006-A2	37939	10	$ 13,889,919	$ 4,035,975
J.P. Morgan Alternative Loan Trust 2006-A2	37939	11	$ 13,966,410	$ 4,399,037
J.P. Morgan Alternative Loan Trust 2006-A2	37939	12	$ 14,709,284	$ 4,793,096



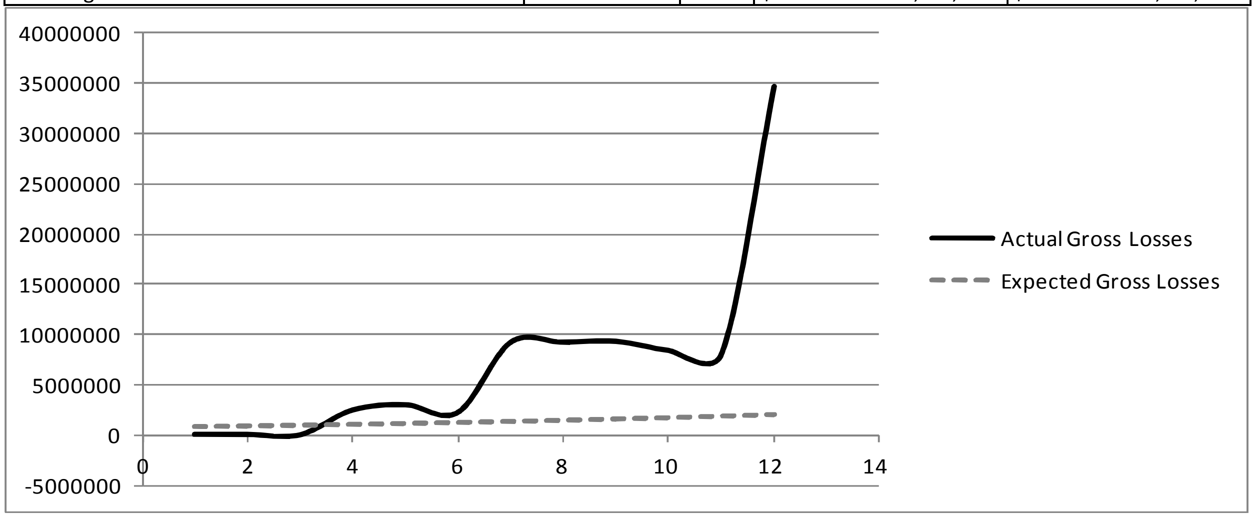
Issuing Entity	ABSNet Deal Id	Month	Actual Gross Losses	Expected Gross Losses
J.P. Morgan Alternative Loan Trust 2007-A1	40928	1	$ -	$ 410,953
J.P. Morgan Alternative Loan Trust 2007-A1	40928	2	$ -	$ 448,864
J.P. Morgan Alternative Loan Trust 2007-A1	40928	3	$ -	$ 490,192
J.P. Morgan Alternative Loan Trust 2007-A1	40928	4	$ 624,000	$ 535,231
J.P. Morgan Alternative Loan Trust 2007-A1	40928	5	$ 10,080,662	$ 584,295
J.P. Morgan Alternative Loan Trust 2007-A1	40928	6	$ 18,806,077	$ 637,723
J.P. Morgan Alternative Loan Trust 2007-A1	40928	7	$ 33,916,733	$ 695,878
J.P. Morgan Alternative Loan Trust 2007-A1	40928	8	$ 39,279,758	$ 759,147
J.P. Morgan Alternative Loan Trust 2007-A1	40928	9	$ 41,855,791	$ 827,945
J.P. Morgan Alternative Loan Trust 2007-A1	40928	10	$ 40,461,103	$ 902,712
J.P. Morgan Alternative Loan Trust 2007-A1	40928	11	$ 53,729,616	$ 983,917
J.P. Morgan Alternative Loan Trust 2007-A1	40928	12	$ 51,706,996	$ 1,072,055



Issuing Entity	ABSNet Deal Id	Month	Actual Gross Losses	Expected Gross Losses
J.P. Morgan Alternative Loan Trust 2007-A2	41347	1	$ -	$ 281,565
J.P. Morgan Alternative Loan Trust 2007-A2	41347	2	$ 877,350	$ 307,539
J.P. Morgan Alternative Loan Trust 2007-A2	41347	3	$ 2,701,050	$ 335,855
J.P. Morgan Alternative Loan Trust 2007-A2	41347	4	$ 24,812,178	$ 366,714
J.P. Morgan Alternative Loan Trust 2007-A2	41347	5	$ 23,991,368	$ 400,330
J.P. Morgan Alternative Loan Trust 2007-A2	41347	6	$ 58,062,414	$ 436,937
J.P. Morgan Alternative Loan Trust 2007-A2	41347	7	$ 73,259,884	$ 476,781
J.P. Morgan Alternative Loan Trust 2007-A2	41347	8	$ 100,016,585	$ 520,130
J.P. Morgan Alternative Loan Trust 2007-A2	41347	9	$ 109,624,245	$ 567,267
J.P. Morgan Alternative Loan Trust 2007-A2	41347	10	$ 132,420,759	$ 618,494
J.P. Morgan Alternative Loan Trust 2007-A2	41347	11	$ 181,747,207	$ 674,132
J.P. Morgan Alternative Loan Trust 2007-A2	41347	12	$ 200,865,660	$ 734,519



Issuing Entity	ABSNet Deal Id	Month	Actual Gross Losses	Expected Gross Losses
J.P. Morgan Alternative Loan Trust 2007-S1	41376	1	$ 102,646	$ 788,280
J.P. Morgan Alternative Loan Trust 2007-S1	41376	2	$ 102,646	$ 860,999
J.P. Morgan Alternative Loan Trust 2007-S1	41376	3	$ 64,665	$ 940,274
J.P. Morgan Alternative Loan Trust 2007-S1	41376	4	$ 2,534,448	$ 1,026,666
J.P. Morgan Alternative Loan Trust 2007-S1	41376	5	$ 3,046,760	$ 1,120,780
J.P. Morgan Alternative Loan Trust 2007-S1	41376	6	$ 2,298,597	$ 1,223,265
J.P. Morgan Alternative Loan Trust 2007-S1	41376	7	$ 9,260,993	$ 1,334,816
J.P. Morgan Alternative Loan Trust 2007-S1	41376	8	$ 9,260,879	$ 1,456,177
J.P. Morgan Alternative Loan Trust 2007-S1	41376	9	$ 9,355,814	$ 1,588,143
J.P. Morgan Alternative Loan Trust 2007-S1	41376	10	$ 8,438,051	$ 1,731,560
J.P. Morgan Alternative Loan Trust 2007-S1	41376	11	$ 8,092,595	$ 1,887,324
J.P. Morgan Alternative Loan Trust 2007-S1	41376	12	$ 34,688,542	$ 2,056,388



80. As clearly shown in Figure 2 (*supra*), actual gross losses spiked almost immediately after issuance of the RMBS. Borrowers defaulted on the underlying mortgages soon after loan origination, rapidly eliminating the RMBS's credit enhancement. For example, in the SG Mortgage Securities Trust 2006-FRE2 offering, actual gross losses at month 12 exceeded $263 million, or more than 62 times the expected gross losses of approximately $4.2 million. (*See supra* Figure 2).

81. This immediate increase in actual losses—at a rate far greater than expected losses—is strong evidence that the Originators systematically disregarded the underwriting standards in the Offering Documents.

82. Because credit enhancement is designed to ensure triple-A performance of triple-

A rated RMBS, the evidence that credit enhancement has failed (*i.e.*, actual losses swiftly surged past expected losses shortly after the offering) substantiates that a critical number of mortgages in the pool were not written in accordance with the underwriting guidelines stated in the Offering Documents.

C. The Collapse of the Certificates' Credit Ratings is Evidence of Systematic Disregard of Underwriting Guidelines

83. Virtually all of the RMBS certificates the Credit Unions purchased were rated triple-A at issuance.

84. Moody's and S&P have since downgraded the RMBS certificates the Credit Unions purchased to well below investment grade (*see supra* Table 3).

85. Triple-A rated product "should be able to withstand an extreme level of stress and still meet its financial obligations. A historical example of such a scenario is the Great Depression in the U.S." *Understanding Standard & Poor's Rating Definitions*, June 3, 2009, at 14.

86. A rating downgrade is material. The total collapse in the credit ratings of the RMBS certificates the Credit Unions purchased, typically from triple-A to non-investment speculative grade, is evidence of the Originators' systematic disregard of underwriting guidelines, amplifying that these RMBS were impaired from the outset.

D. Revelations Subsequent to the Offerings Show That the Originators Systematically Disregarded Underwriting Standards

87. Public disclosures subsequent to the issuance of the RMBS reinforce the allegation that the Originators systematically abandoned their stated underwriting guidelines.

1. The Systematic Disregard of Underwriting Standards Was Pervasive as Revealed After the Collapse

88. Mortgage originators experienced unprecedented success during the mortgage

boom. Yet, their success was illusory. As the loans they originated began to significantly underperform, the demand for their products subsided. It became evident that originators had systematically disregarded their underwriting standards.

89. The Office of the Comptroller of the Currency (the "OCC"), an office within the Treasury Department, published a report in November 2008 listing the "Worst Ten" metropolitan areas with the highest rates of foreclosures and the "Worst Ten" originators with the largest numbers of foreclosures in those areas ("2008 'Worst Ten in the Worst Ten' Report"). In this report the OCC emphasized the importance of adherence to underwriting standards in mortgage loan origination:

> The quality of the underwriting process—that is, determining through analysis of the borrower and market conditions that a borrower is highly likely to be able to repay the loan as promised—is a major determinant of subsequent loan performance. The quality of underwriting varies across lenders, a factor that is evident through comparisons of rates of delinquency, foreclosure, or other loan performance measures across loan originators.

90. Government reports and investigations and newspaper reports have uncovered the extent of pervasive abandonment of underwriting standards. The Permanent Subcommittee on Investigations in the United States Senate ("PSI") recently released its report detailing the causes of the financial crisis. Using Washington Mutual Bank as a case study, the PSI concluded through its investigation:

> Washington Mutual was far from the only lender that sold poor quality mortgages and mortgage backed securities that undermined U.S. financial markets. The Subcommittee investigation indicates that Washington Mutual was emblematic of a host of financial institutions that knowingly originated, sold, and securitized billions of dollars in high risk, poor quality home loans. These lenders were not the victims of the financial crisis; the high risk loans they issued became the fuel that ignited the financial crisis.

STAFF OF S. PERMANENT SUBCOMM. ON INVESTIGATIONS, 112TH CONG., WALL STREET AND THE FINANCIAL CRISIS: ANATOMY OF A FINANCIAL COLLAPSE 50 (Subcomm. Print 2011).

91. Indeed, the Financial Crisis Inquiry Commission ("FCIC") issued its final report in January 2011 that detailed, among other things, the collapse of mortgage underwriting standards and subsequent collapse of the mortgage market and wider economy. *See* FIN. CRISIS INQUIRY COMM'N, FINAL REPORT OF THE NATIONAL COMMISSION ON THE CAUSES OF THE FINANCIAL AND ECONOMIC CRISIS IN THE UNITED STATES (2011) ("FCIC Report").

92. The FCIC Report concluded that there was a "systemic breakdown in accountability and ethics." "Unfortunately—as has been the case in past speculative booms and busts—we witnessed an erosion of standards of responsibility and ethics that exacerbated the financial crisis." *Id*. at xxii. The FCIC found:

> [I]t was the collapse of the housing bubble—fueled by low interest rates, easy and available credit, scant regulation, and toxic mortgages—that was the spark that ignited a string of events, which led to a full-blown crises in the fall of 2008. Trillions of dollars in risky mortgages had become embedded throughout the financial system, as mortgage-related securities were packaged, repackaged, and sold to investors around the world.

Id. at xvi.

93. During the housing boom, mortgage lenders focused on quantity rather than quality, originating loans for borrowers who had no realistic capacity to repay the loan. The FCIC Report found "that the percentage of borrowers who defaulted on their mortgages within just a matter of months after taking a loan nearly doubled from the summer of 2006 to late 2007." *Id*. at xxii. Early Payment Default is a significant indicator of pervasive disregard for underwriting standards. The FCIC Report noted that mortgage fraud "flourished in an environment of collapsing lending standards…." *Id*.

94. In this lax lending environment, mortgage lenders went unchecked, originating mortgages for borrowers in spite of underwriting standards:

> Lenders made loans that they knew borrowers could not afford and that could cause massive losses to investors in mortgage securities. As early as September 2004, Countrywide executives recognized that many of the loans they were originating could result in "catastrophic consequences." Less than a year later, they noted that certain high-risk loans they were making could result not only in foreclosures but also in "financial and reputational catastrophe" for the firm. But they did not stop.

Id.

95. Lenders and borrowers took advantage of this climate, with borrowers willing to take on loans and lenders anxious to get those borrowers into the loans, ignoring even loosened underwriting standards. The FCIC Report observed: "Many mortgage lenders set the bar so low that lenders simply took eager borrowers' qualifications on faith, often with a willful disregard for a borrower's ability to pay." *Id*. at xxiii.

96. In an interview with the FCIC, Alphonso Jackson, the Secretary of the Department of Housing and Urban Affairs ("HUD") from 2004 to 2008, related that HUD had heard about mortgage lenders "running wild, taking applications over the Internet, not verifying people's income or their ability to have a job." *Id*. at 12-13 (internal quotation marks omitted).

97. Chairman of the Federal Reserve Board, Benjamin Bernanke, spoke to the decline of underwriting standards in his speech before the World Affairs Council of Greater Richmond on April 10, 2008:

> First, at the point of origination, underwriting standards became increasingly compromised. The best-known and most serious case is that of subprime mortgages, mortgages extended to borrowers with weaker credit histories. To a degree that increased over time, these mortgages were often poorly documented and extended with insufficient attention to the borrower's ability to repay. In retrospect, the breakdown in underwriting can be linked to the incentives that the originate-to-distribute model, as implemented in this case, created for the originators. Notably, the incentive structures often tied originator revenue to loan volume, rather than to the quality of the loans being passed up the chain. Investors normally have the right to put loans that default quickly back to the originator, which should tend to apply some discipline to the underwriting process. However,

> in the recent episode, some originators had little capital at stake, reducing their exposure to the risk that the loans would perform poorly.

Benjamin Bernanke, Chairman, Federal Reserve Board, Speech to the World Affairs Council of Greater Richmond, *Addressing Weaknesses in the Global Financial Markets: The Report of the President's Working Group on Financial Markets,* Apr. 10, 2008.

98. Investment banks securitized loans that were not originated in accordance with underwriting guidelines and failed to disclose this fact in RMBS offering documents. As the FCIC Report noted:

> The Commission concludes that firms securitizing mortgages failed to perform adequate due diligence on the mortgages they purchased and at times knowingly waived compliance with underwriting standards. Potential investors were not fully informed or were misled about the poor quality of the mortgages contained in some mortgage-related securities. These problems appear to have been significant.

FCIC Report at 187.

99. Because investors had limited or no access to information concerning the actual quality of loans underlying the RMBS, the OTD model created a situation where the origination of low quality mortgages through poor underwriting thrived. The FSOC found:

> In the originate-to-distribute model, originators receive significant compensation upfront without retaining a material ongoing economic interest in the performance of the loan. This reduces the economic incentive of originators and securitizers to evaluate the credit quality of the underlying loans carefully. Some research indicates that securitization was associated with lower quality loans in the financial crisis. For instance, one study found that subprime borrowers with credit scores just above a threshold commonly used by securitizers to determine which loans to purchase defaulted at significantly higher rates than those with credit scores below the threshold. By lower underwriting standards, securitization may have increased the amount of credit extended, resulting in riskier and unsustainable loans that otherwise may not have been originated.

FSOC Risk Retention Report at 11 (footnote omitted).

100. The FSOC reported that as the OTD model became more pervasive in the

mortgage industry, underwriting practices weakened across the industry. The FSOC Risk Retention Report found "[t]his deterioration was particularly prevalent with respect to the verification of the borrower's income, assets, and employment for residential real estate loans… ." *Id*.

101. In sum, the disregard of underwriting standards was pervasive across originators. The failure to adhere to underwriting standards directly contributed to the sharp decline in the quality of mortgages that became part of mortgage pools collateralizing RMBS. The lack of adherence to underwriting standards for the loans underlying RMBS was not disclosed to investors in the offering materials. The nature of the securitization process, with the investor several steps removed from the origination of the mortgages underlying the RMBS, made it difficult for investors to ascertain how the RMBS would perform.

102. As discussed below, facts have recently come to light that show many of the Originators who contributed to the loan pools underlying the RMBS at issue in this Complaint engaged in these underwriting practices.

2. American Home's Systematic Disregard of Underwriting Standards

103. American Home Mortgage Investment Corp. was a real estate investment trust that invested in RMBS consisting of loans originated and serviced by its subsidiaries. It was the parent of American Home Mortgage Holdings, Inc., which in turn was the parent of American Home Mortgage Corp., a retail lender of mortgage loans. Collectively, these entities are referred to herein as "American Home."

104. American Home originated or contributed a critical number of loans to the mortgage pools underlying the J.P. Morgan Alternative Loan Trust 2007-A2, J.P. Morgan Alternative Loan Trust 2007-S1, SACO I Trust 2006-2 and the SACO I Trust 2006-8 offerings.

See infra Table 6.

105. Edmund Andrews, an economics reporter for the New York Times, recounted his own experience using American Home as a lender. According to Andrews, he was looking to purchase a home in 2004, and his real estate agent referred him to a loan officer at American Home. The American Home loan officer began the ordeal by asking Andrews how large of a loan he needed. Andrews, who had a monthly take home pay of $2,777, advised the loan officer that he had hefty child support and alimony payments to an ex-wife. Andrews would be relying on his then-unemployed fiancée to earn enough money to meet his monthly obligations—including the mortgage. Andrews reported:

> As I quickly found out, American Home Mortgage had become one of the fastest-growing mortgage lenders in the country. One of its specialties was serving people just like me: borrowers with good credit scores who wanted to stretch their finances far beyond what our incomes could justify. In industry jargon, we were "Alt-A" customers, and we usually paid slightly higher rates for the privilege of concealing our financial weaknesses.
>
> I thought I knew a lot about go-go mortgages. I had already written several articles about the explosive growth of liar's loans, no-money-down loans, interest-only loans and other even more exotic mortgages. I had interviewed people with very modest incomes who had taken out big loans. Yet for all that, I was stunned at how much money people were willing to throw at me.
>
> [The American Home loan officer] called back the next morning. "Your credit scores are almost perfect," he said happily. "Based on your income, you can qualify for a mortgage of about $500,000."
>
> What about my alimony and child-support obligations? No need to mention them. What would happen when they saw the automatic withholdings in my paycheck? No need to show them. If I wanted to buy a house, [the American Home loan officer] figured, it was my job to decide whether I could afford it. His job was to make it happen.
>
> "I am here to enable dreams," he explained to me long afterward. [The American Home loan officer]'s view was that if I'd been unemployed for seven years and didn't have a dime to my name but I wanted a house, he wouldn't question my prudence. "Who am I to tell you that you shouldn't do what you want to do? I

> am here to sell money and to help you do what you want to do. At the end of the day, it's your signature on the mortgage—not mine."

Edmund L. Andrews, *My Personal Credit Crisis*, N.Y. TIMES, May 17, 2009, at MM46.

106. The American Home loan officer steered Andrews to a stated-income loan so that he would not have to produce paychecks or tax returns that would reveal his alimony and child support obligations. The loan officer wanted to limit disclosure of Andrews's alimony and child support payments when an existing mortgage showed up under Andrews's name. Although his ex-wife was solely responsible for that mortgage under the terms of the couple's separation agreement, the only way Andrews could explain that fact would be to produce the agreement, which would also reveal his alimony and child support obligations. According to Andrews:

> [The American Home loan officer] didn't get flustered. If Plan A didn't work, he would simply move down another step on the ladder of credibility. Instead of "stating" my income without documenting it, I would take out a "no ratio" mortgage and not state my income at all. For the price of a slightly higher interest rate, American Home would verify my assets, but that was it. Because I wasn't stating my income, I couldn't have a debt-to-income ratio, and therefore, I couldn't have too much debt. I could have had four other mortgages, and it wouldn't have mattered. American Home was practically begging me to take the money.

Id.

107. American Home ultimately approved Andrews's application. Not surprisingly, Andrews was unable to afford his monthly mortgage payments.

108. American Home's lack of adherence to underwriting guidelines was set forth in detail in a 165-page amended class action complaint filed June 4, 2008, in *In re American Home Mortgage Sec Litig.*, No. 07-md-1898 (TCP) (E.D.N.Y.). Investors in American Home common/preferred stock alleged that the company misrepresented itself as a conservative lender, when, based on statements from more than 33 confidential witnesses and internal company documents, American Home in reality was a high risk lender, promoting quantity of loans over

quality by targeting borrowers with poor credit, violating company underwriting guidelines, and providing incentives for employees to sell risky loans, regardless of the borrowers' creditworthiness. *See* Am. Class Action Compl., *In re American Home Mortgage Sec. Litig.*, No. 07-md-1898 (E.D.N.Y. filed June 4, 2008) ("American Home ACC").

109. According to the American Home ACC, former American Home employees recounted that underwriters were consistently bullied by sales staff when underwriters challenged questionable loans, while exceptions to American Home's underwriting guidelines were routinely applied. *See id*. ¶¶ 120-121.

110. The American Home ACC cited to witnesses who were former American Home employees. These witnesses reported that American Home management told underwriters not to decline a loan, regardless of whether the loan application included fraud. *See id*.

111. Another former American Home employee stated that American Home routinely made exceptions to its underwriting guidelines to be able to close loans. When American Home mortgage underwriters raised concerns to the sales department about the pervasive use of exceptions to American Home's mortgage underwriting practices, the sales department contacted American Home headquarters to get approval for the use of exceptions. Indeed, it was commonplace to overrule mortgage underwriters' objections to approving a loan to facilitate loan approval. *See id*. ¶ 123.

112. A former American Home auditor confirmed this account that American Home mortgage underwriters were regularly overruled when they objected to loan originations. *See id*. ¶ 124.

113. The parties settled the litigation on January 14, 2010, for $37.25 million.

114. American Home's lending practices landed it in the 2008 "Worst Ten in the

Worst Ten" Report. American Home came in 8th in Las Vegas, Nevada, and 9th in both Detroit, Michigan, and Miami, Florida. *See* 2008 "Worst Ten in the Worst Ten" Report. When the OCC issued the 2009 "Worst Ten in the Worst Ten" Report, American Home again featured prominently, appearing in the top ten in six of the ten worst metropolitan areas (4th in both Fort Pierce-Port St. Lucie, Florida, and Fort Myers-Cape Coral, Florida; 7th in Vallejo-Fairfield-Napa, California; 8th in Las Vegas, Nevada; 9th in Stockton-Lodi, California; and 10th in Bakersfield, California). *See* 2009 "Worst Ten in the Worst Ten" Report.

3. Bear Stearns Residential Mortgage Corporation's Systematic Disregard of Underwriting Standards

115. Bear Stearns Residential Mortgage Corp. ("BSRMC") was formerly known as EMC Residential Mortgage Corporation. The company was founded in 1994 and is based in Scottsdale, Arizona. BSMRC operated as a subsidiary of The Bear Stearns Companies, LLC. It is now a subsidiary of J.P. Morgan.

116. BSRMC originates mortgage-backed securities. It also offered solutions for financing home mortgage loans to mortgage brokers. The company also provided BearDirect.net, a Web interface, enabling brokers to receive feedback on mortgage loan product and pricing scenarios.

117. BSRMC originated or contributed a material portion of the loans in the mortgage pool underlying the Bear Stearns Second Lien Trust 2007-1, Groups II and III offering (*see infra* Table 6).

118. BSRMC originated defective mortgages that even other risky subprime lenders would not. According to data from the Federal Reserve, BSRMC originated 19,715 mortgages in excess of $4.37 billion in its first full year of operation. Further, the data revealed that BSRMC rejected only 13% of applications, compared with the significantly higher national

denial rate of 29%. *See* Michael Corkery, *Fraud Seen as Driver in Wave of Foreclosures-Atlanta Ring Scams Bear Stearns, Getting $6.8 Million in Loans*, Wall St. J. A1 (Dec. 21, 2007), *available at* http://online.wsj.com/article/SB119820566870044163.html.

119. The Federal Housing Finance Agency ("FHFA") acting as conservator for Fannie Mae and Freddie Mac has sued Bear Stearns for making material misstatements and omissions in RMBS Offering Documents. *See* Am. Compl., *FHFA v. JP Morgan*, No. 11-6188 (S.D.N.Y. filed June 13, 2012).

120. Confidential witnesses in the FHFA's complaint described BSRMC's disregard of its underwriting guidelines. According to one confidential witness, who was a former senior underwriter for BSRMC during the relevant time period, supervisors pressured the confidential witness to push the loans through. If the confidential witness declined to approve a loan, supervisors insisted that the confidential witness was not following guidelines. The confidential witness stated that many of the loans should have been declined because they had unreasonable stated incomes or the income was not verified, but the confidential witness was forced to approve the loans regardless. If an underwriter questioned the income statements, supervisors would question the underwriter's adherence to the guidelines and threaten to fire them. *Id.* ¶ 222.

121. According to another confidential witness, who was an underwriter for BSRMC during the relevant time period, underwriters were not permitted to investigate or question an applicant's ability to pay back the loan. The underwriters in the confidential witness's office were told to approve the loans and not to perform any due diligence as this would upset the loan brokers. These instructions came from senior management. If the confidential witness refused to approve a loan, the loan would be elevated to someone more senior who would approve the loan. Further, the confidential witness believed that many of the loan applications contained

fraudulent documents. The confidential witness believed that these fraudulent documents were coming from the broker level, but the underwriters were only permitted to perform a limited amount of due diligence. The underwriters in confidential witness's office complained that there wasn't a loan that BSRMC didn't like. *Id.* ¶ 223.

122. The FHFA also conducted a forensic review of loans for an RMBS that contained significant amounts of loans from BSRMC. This review consisted of an analysis of the loan origination file for each loan, including the documents submitted by the individual borrowers in support of their loan applications, as well as an analysis of information extrinsic to each loan file, such as the borrower's motor vehicle registration documentation with pertinent information indicating a borrower's assets or residence, and other information that was available at the time of the loan application, as well as the borrower's filings in bankruptcy proceedings and other sources of information. *Id.* ¶ 362.

123. The FHFA reviewed 535 loan files for the Group II-2 pool in the BSMF 2007-AR3 offering. BSRMC originated 16.49% of the loans in the Group II-2 pool. The FHFA's review revealed that 98% of the loans (523 out of 535) were not underwritten in accordance with the underwriting guidelines or otherwise breached the representations contained in the transaction documents. Of the 523 loans that did not comply with the underwriting guidelines, none had sufficient compensating factors to warrant an exception. *Id.* ¶¶ 359, 367.

124. The FHFA noted several specific examples of how BSRMC disregarded its underwriting guidelines.

125. In two of FHFA's examples, BSRMC ignored its underwriting guidelines's requirement that "[i]ncome must be reasonable for employment stated":

> A loan that closed in February 2007 with a principal amount of $142,400 was originated pursuant to BSRM's Low Documentation Program and included in the

BSMF 2007-AR3 Securitization. This loan was a rate-term refinance. The loan application stated that the borrower was employed as a school cook earning $6,500 per month. The Bureau of Labor Statistics reported that the average salary at the 90th percentile for a cook in the same geographic region in 2006 was $2,669 per month. The borrower's stated income exceeded the Bureau of Labor Statistics' 90th percentile by over 2 times, which should have put a reasonably prudent underwriter on notice for potential misrepresentation. The loan file contains no evidence that the loan underwriter assessed the reasonableness of the borrower's stated income. Moreover, in a Statement of Financial Affairs filed by the borrower as part of a May 2010 Chapter 7 bankruptcy proceeding, the borrower reported an income in 2008, the year following the subject loan's closing in 2007, of only $1,680 per month. It is unlikely the borrower's income would have decreased considering, per Schedule I of the bankruptcy petition, the borrower was still employed by the same employer. A recalculation of DTI based on the borrower's verified next year income and additional undisclosed debt yields a DTI of 252.53 percent, which exceeds the guideline maximum allowable DTI of 50 percent. The borrower defaulted and the loan was subsequently foreclosed on with a remaining balance of $151,206.91, or 106.18 percent of the original loan balance.

A loan that closed in February 2007 with a principal amount of $67,900 was originated pursuant to BSRM's Low Documentation Program and included in the BSMF 2007-AR3 Securitization. The loan application stated that the borrower was employed as a training specialist earning $18,583 per month. The Bureau of Labor Statistics reported that the average salary at the 90th percentile for a training specialist in the same geographic region in 2007 was $7,568 per month. The borrower's stated income exceeded the Bureau of Labor Statistics' 90th percentile by over 2 times, which should have put a reasonably prudent underwriter on notice for potential misrepresentation. Moreover, the initial loan application indicated the borrower earned $10,250 per month and the co-borrower earned $8,333 per month; however, the final 1003 application reflects the borrower's stated income as $18,583 and the co-borrower's stated income as $0, which also should have put a reasonably prudent underwriter on notice for potential misrepresentation. Despite these red flags, the loan file contains no evidence that the loan underwriter assessed the reasonableness of the borrower's stated income. The borrower provided a pay stub for the pay period ending August 2009 in connection with a post-closing review. The pay stub revealed the borrower's actual income was $7,056 per month. It is unlikely the borrower's income would have decreased considering the borrower was still employed by the same employer and in the same position. A recalculation of DTI based on the borrower's verified income yields a DTI of 120.63 percent, which exceeds the guideline maximum allowable DTI of 50 percent. The borrower defaulted and the loan was subsequently foreclosed on with a remaining balance of $76,184.38, or 112.20 percent of the original loan balance.

Id. ¶¶ 378-379.

126. In another of the FHFA's examples, BSRMC underwriters ignored obvious red flags of misrepresentations on the loan application:

> A loan that closed in January 2007 with a principal amount of $170,000 was originated pursuant to BSRM's Low Documentation Program and included in the BSMF 2007-AR3 Securitization. The loan closed as an owner-occupied cash-out refinance. The underwriting guidelines for this loan required that at least one of the borrowers occupy the subject property and the loan was represented as owner occupied. The final loan application indicated that the borrower was occupying the subject property as a primary residence. However, a review of the loan file revealed that the borrower was in the process of purchasing a primary residence, not the subject property and out of state, at the time of loan application. Furthermore, the loan file contained a hardship letter obtained in connection with a post-closing request for a loan modification, which revealed that the borrower moved from the subject property in January 2007, the same month as the subject loan closing, to occupy the out of state residence purchased in February 2007. Moreover, the hardship letter also revealed that the borrower retained the subject property as an investment property. No evidence in the file indicates that the underwriting process addressed these inconsistencies, and the loan was underwritten as if the property was owner occupied. The borrower defaulted and the loan was subsequently foreclosed on with a remaining balance of $184,968.78, or 108.81 percent of the original loan balance.

Id. ¶ 381.

127. The FHFA provided two more examples where BSRMC underwriters ignored red flags that the borrower had undisclosed debt obligations:

> A loan that closed in February 2007 with a principal amount of $67,900 was originated pursuant to BSRM's Low Documentation Program and included in the BSMF 2007-AR3 Securitization. The applicable guidelines required a qualified credit report to be present in the loan file. A qualified credit report includes credit inquiries for the previous 90 days. The origination underwriter should have determined whether any recent credit inquiries listed on the report resulted in additional debt undisclosed on the loan application. Despite this requirement, the underwriter failed to investigate the borrower's credit history. There was no evidence in the file that the underwriter requested or obtained an explanation from the borrower for the 9 inquiries, dated from November 5, 2006 through January 30, 2007, listed on the origination credit report dated January 30, 2007. A recalculation of DTI based on the borrower's undisclosed debt yields a DTI of 120.63 percent, which exceeds the guideline maximum allowable DTI of 50 percent. The borrower defaulted and the loan was subsequently foreclosed on with a remaining balance of $76,184.38, or 112.20 percent of the original loan balance.

> A loan that closed in February 2007 with a principal amount of $142,400 was originated pursuant to BSRM's Low Documentation Program and included in the BSMF 2007-AR3 Securitization. The applicable guidelines required a qualified credit report to be present in the loan file. A qualified credit report includes credit inquiries for the previous 90 days and, further, lender's guidelines required the lender to investigate the borrower's credit. The origination underwriter should have determined whether any recent credit inquiries listed on the report resulted in additional debt undisclosed on the loan application. Despite this requirement, the underwriter failed to investigate the borrower's credit history. There was no evidence in the file that the underwriter requested or obtained an explanation from the borrower for the 6 inquiries, dated from September 12, 2006 through November 29, 2006, listed on the origination credit report dated November 29, 2006. A recalculation of DTI based on the borrower's verified income and undisclosed debt yields a DTI of 252.53 percent which exceeds the guideline maximum allowable DTI of 50 percent. The borrower defaulted and the loan was subsequently foreclosed on with a remaining balance of $151,206.91, or 106.18 percent of the original loan balance.

Id. ¶ 383.

128. And finally, the FHFA highlighted an instance in which BSRMC failed to evaluate a borrower's ability to repay in light of all of the liabilities that the underwriting guidelines required it to consider:

> A loan that closed in January 2007 with a principal amount of $228,000 was originated pursuant to BSRM's Low Documentation Program and included in the BSMF 2007-AR3 Securitization. The lender failed to properly calculate the borrower's debts. A review of the audit credit report revealed that the borrower opened an installment loan in December 2006 in the amount of $9,036 with a monthly payment of $201 and failed to disclose this debt on the loan application. The origination credit report dated January 18, 2007 revealed 6 inquiries, one of which lead to the undisclosed installment loan. A recalculation of DTI based on the borrower's undisclosed debt yields a DTI of 118.27 percent, which exceeds the guideline maximum allowable DTI of 50 percent. The borrower defaulted and the loan was subsequently liquidated for a loss of $138,989.71, or 60.96 percent of the original loan balance.
>
> A loan that closed in February 2007 with a principal amount of $67,900 was originated pursuant to BSRM's Low Documentation Program and included in the BSMF 2007-AR3 Securitization. The lender failed to properly calculate the borrower's debts. A review of the audit credit report and Mortgage Electronic Registration Systems revealed 6 undisclosed mortgages opened within 30 days of the subject loan's closing. The following mortgages were undisclosed on the loan application: A mortgage in the amount of $80,100 and a monthly payment of

> $546 opened January 2007, a mortgage in the amount of $88,200 and a monthly payment of $602 opened January 2007, a mortgage in the amount of $94,500 and a monthly payment of $645 opened January 2007, a mortgage in the amount of $27,000 and a monthly payment of $170 opened February 2007, a mortgage in the amount of $88,900 and a monthly payment of $606 opened February 2007, and a mortgage in the amount of $114,300 and a monthly payment of $780 opened February 2007. Moreover, the origination credit report dated January 30, 2007 revealed 9 inquiries dated from November 5, 2006 through January 30, 2007, and the loan file contained a lease agreement for a rental property not disclosed on the loan application, both of which should have put a reasonably prudent underwriter on notice for potential misrepresentation. A recalculation of DTI based on the borrower's undisclosed debt yields a DTI of 120.63 percent, which exceeds the guideline maximum allowable DTI of 50 percent. The borrower defaulted and the loan was subsequently foreclosed on with a remaining balance of $76,184.38, or 112.20 percent of the original loan balance.

Id. ¶ 385.

129. In fact, the FHFA determined that 89 of the 535 loans (25.2%) it reviewed from the BSMF 2007-AR3 offering incorrectly calculated the borrower's debts which, if corrected, would have caused the debt-to-income ratio to exceed the applicable underwriting guidelines. *Id.* ¶ 386.

130. In FHFA's suit, the district court denied Bear Stearns's motion to dismiss, holding that the FHFA's allegations "amply support FHFA's assertion that the Offering Documents for the Securitizations contained false statements regarding originators' compliance with underwriting standards." *FHFA v. JPMorgan Chase & Co.*, No. 11-6188, 2012 WL 5395646, at *8 (S.D.N.Y Nov. 5, 2012).

131. Bear Stearns shareholders brought a class action complaint against Bear Stearns regarding its mortgage-backed securities business. The complaint contained allegations by confidential witnesses. One confidential witness was an Area Sales Manager who began work for Encore Credit Corporation, which was purchased by Bear Stearns in early 2007. The confidential witness continued to work at BSRMC until February 2008. The confidential

witness's office was under great pressure to "dig deeper" and originate riskier loans that "cut corners" with respect to credit scores or LTV ratios. Compl., *In re Bear Stearns Cos., Sec., Derivative, & ERISA Litig.*, No. 08-2793, ¶ 54 (S.D.N.Y filed Feb. 27, 2009).

4. The Chase Originators' Systematic Disregard of Underwriting Standards

132. Chase Home Finance, LLC and J.P. Morgan Chase Bank, N.A. (the "Chase Originators") compose the mortgage-lending arm of JPMorgan Chase & Co. The Chase Originators originated or contributed a critical portion of loans in the mortgage pool underlying the ChaseFlex Trust Series 2007-2, ChaseFlex Trust Series 2007-3, ChaseFlex Trust Series 2007-M1, J.P. Morgan Alternative Loan Trust 2006-A2, J.P. Morgan Alternative Loan Trust 2007-A1, J.P. Morgan Alternative Loan Trust 2007-A2 and J.P. Morgan Alternative Loan Trust 2007-S1 offerings. *See* Table 6 (*infra*).

133. Chase employees circulated a memo instructing mortgage associates how to tweak data they entered into the automated underwriting program ("ZiPPY") to get loans approved by the automated underwriting program. *See* Memorandum from Chase on ZiPPY Cheats & Tricks (on file with Plaintiff) (Chase ZiPPY Memo") (reported in Mark Friesen, *Chase mortgage memo pushes 'Cheats & Tricks'*, OREGONIAN, March 28, 2008, *available at* http://www.oregonlive.com/business/index.ssf/2008/03/chase_mortgage_memo_pushes_che.html).

134. The Chase ZiPPY Memo listed a few steps that mortgage associates could use to manipulate the data entered into the ZiPPY automated underwriting program to recommend using the "Stated Income/Stated Asset" underwriting guidelines for borrowers. *See* Chase ZiPPY Memo.

135. Strikingly, "Step 3" stated: "If you do not get Stated/Stated, try resubmitting with

slightly higher income. Inch it up $500 to see if you can get the findings you want. Do the same for assets." *Id*.

136. In other words, the Chase ZiPPY Memo instructed mortgage associates to inflate borrower income to "trick" ZiPPY into recommending the use of Stated Income/Stated Asset underwriting guidelines.

137. In addition, the Chase ZiPPY Memo told mortgage associates not to report gift funds, but to include gift funds in the borrower's bank account.

138. The Oregonian characterized the memo in the following excerpt from a March 28, 2008 article:. In particular, the Oregonian article highlighted the "tricks" employed to get mortgage loans approved under the automated underwriting program:

> A newly surfaced memo from banking giant JPMorgan Chase provides a rare glimpse into the mentality that fueled the mortgage crisis.
>
> The memo's title says it all: "Zippy Cheats & Tricks."
>
> It is a primer on how to get risky mortgage loans approved by Zippy, Chase's in-house automated loan underwriting system. The secret to approval? Inflate the borrowers' income or otherwise falsify their loan application.
>
> The document, a copy of which was obtained by The Oregonian, bears a Chase corporate logo. But it's unclear how widely it was circulated or used within Chase.
>
> . . .
>
> Chase, the nation's second-largest bank, originates mortgage loans itself but also operates a wholesale arm that underwrites and funds loans brought to them by a network of mortgage brokers. The "Cheats & Tricks" memo was instructing those brokers how to get difficult loans approved by Zippy.
>
> "Never fear," the memo states. "Zippy can be adjusted (just ever so slightly.)"
>
> The Chase memo deals specifically with so-called stated-income asset loans, one of the most dangerous of the mortgage industry's innovations of recent years. Known as "liar loans" in some circles because lenders made little effort to verify information in the borrowers' loan application, they have defaulted in large number since the housing bust began in 2007.

Mark Friesen, *Chase mortgage memo pushes 'Cheats & Tricks'*, OREGONIAN, Mar. 28, 2008, *available at* http://www.oregonlive.com/business/index.ssf/2008/03/chase_mortgage_memo_pushes_che.html.

5. Countrywide's Systematic Disregard of Underwriting Standards

139. Countrywide Home Loans, Inc. ("Countrywide") was one of the largest originators of residential mortgages in the United States during the time period at issue in this Complaint. Countrywide originated or contributed a material portion of the loans in the mortgage pool underlying the Bear Stearns Alt-A Trust 2005-9, J.P. Morgan Alternative Loan Trust 2006-A2, J.P. Morgan Alternative Loan Trust 2007-A1 and the Structured Asset Mortgage Investments II Trust 2006-AR2 offerings. *See infra* Table 6.

140. In October 2009, the House Committee on Oversight and Government Reform launched an investigation into the entire subprime mortgage industry, including Countrywide, focusing on "whether mortgage companies employed deceptive and predatory lending practices, or improper tactics to thwart regulation, and the impact of those activities on the current crisis." Press Release, Comm. on Oversight & Government Reform, Statement of Chairman Towns on Committee Investigation Into Mortgage Crisis at 1 (Oct. 23, 2009) (internal quotation marks omitted).

141. On May 9, 2008, the New York Times noted that minimal documentation and stated income loans—Countrywide's No Income/No Assets Program and Stated Income/Stated Assets Program—have "bec[o]me known [within the mortgage industry] as 'liars' loans' because many [of the] borrowers falsified their income." Floyd Norris, A Little Pity, Please, for Lenders, N.Y. Times, May 9, 2008, at C1.

142. In a television special titled, "*If You Had a Pulse, We Gave You a Loan*," Dateline

NBC reported on March 27, 2009:

> To highlight just how simple it could be to borrow money, Countrywide marketed one of its stated-income products as the "Fast and Easy loan."
>
> As manager of Countrywide's office in Alaska, Kourosh Partow pushed Fast and Easy loans and became one of the company's top producers.
>
> He said the loans were "an invitation to lie" because there was so little scrutiny of lenders. "We told them the income that you are giving us will not be verified. The asset that you are stating will not be verified."
>
> He said they joked about it: "If you had a pulse, we gave you a loan. If you fog the mirror, give you a loan."
>
> But it turned out to be no laughing matter for Partow. Countrywide fired him for processing so-called "liar loans" and federal prosecutors charged him with crimes. On April 20, 2007, he pleaded guilty to two counts of wire fraud involving loans to a real estate speculator; he spent 18 months in prison.
>
> In an interview shortly after he completed his sentence, Partow said that the practice of pushing through loans with false information was common and was known by top company officials. "It's impossible they didn't know."
> …
>
> During the criminal proceedings in federal court, Countrywide executives portrayed Partow as a rogue who violated company standards.
>
> But former senior account executive Bob Feinberg, who was with the company for 12 years, said the problem was not isolated. "I don't buy the rogue. I think it was infested."
>
> He lamented the decline of what he saw as a great place to work, suggesting a push to be number one in the business led Countrywide astray. He blamed Angelo Mozilo, a man he long admired, for taking the company down the wrong path. It was not just the matter of stated income loans, said Feinberg. Countrywide also became a purveyor of loans that many consumer experts contend were a bad deal for borrowers, with low introductory interest rates that later could skyrocket.
>
> In many instances, Feinberg said, that meant borrowers were getting loans that were "guaranteed to fail."

Chris Hansen, *'If You Had a Pulse, We Gave You a Loan,'* NBC Dateline (Mar. 22, 2009) http://www.msnbc.msn.com/id/29827248/ns/dateline_nbc-the_hansen_files_with_chris_hansen.

143. On June 4, 2009, the SEC sued Angelo Mozilo and other Countrywide executives, alleging securities fraud. Specifically, the SEC alleged that Mozilo and the others misled investors about the credit risks that Countrywide created with its mortgage origination business, telling investors that Countrywide was primarily involved in prime mortgage lending, when it was actually heavily involved in risky sub-prime loans with expanded underwriting guidelines. *See* Compl. for Violations of the Federal Securities Laws, *SEC v. Mozilo*, No. CV 09-3994-JFW (C.D. Cal. filed June 4, 2009). Mozilo and the other executives settled the charges with the SEC for $73 million on October 15, 2010. *See* Walter Hamilton & E. Scott Reckard, *Angelo Mozilo, Other Former Countrywide Execs Settle Fraud Charges*, L.A. Times, Oct. 16, 2010, at A1.

144. Internal Countrywide e-mails the SEC released in connection with its lawsuit show the extent to which Countrywide systematically deviated from its underwriting guidelines. For instance, in an April 13, 2006 e-mail from Mozilo to other top Countrywide executives, Mozilo stated that Countrywide was originating home mortgage loans with "serious disregard for process, compliance with guidelines and irresponsible behavior relative to meeting timelines." E-mail from Angelo Mozilo to Eric Sieracki and other Countrywide Executives (Apr. 13, 2006 7:42 PM PDT). Mozilo also wrote that he had "personally observed a serious lack of compliance within our origination system as it relates to documentation and generally a deterioration in the quality of loans originated versus the pricing of those loan[s]." *Id.* (internal quotation marks omitted).

145. Indeed, in September 2004, Mozilo had voiced his concern over the "clear deterioration in the credit quality of loans being originated," observing that "the trend is getting

worse" because of competition in the non-conforming loans market. With this in mind, Mozilo argued that Countrywide should "seriously consider securitizing and selling ([Net Interest Margin Securities]) a substantial portion of [Countrywide's] current and future sub prime [sic] residuals." E-mail from Angelo Mozilo to Stan Kurland & Keith McLaughlin, Managing Directors, Countrywide (Sept. 1, 2004 8:17 PM PDT).

146. To protect themselves against poorly underwritten loans, parties that purchase loans from an originator frequently require the originator to repurchase any loans that suffer Early Payment Default.

147. In the first quarter of 2006, HSBC Holdings plc ("HSBC"), a purchaser of Countrywide's 80/20 subprime loans, began to force Countrywide to repurchase certain loans that HSBC contended were defective under the parties' contract. In an e-mail sent on April 17, 2006, Mozilo asked, "[w]here were the breakdowns in our system that caused the HSBC debacle including the creation of the contract all the way through the massive disregard for guidelines set forth by both the contract and corporate." E-mail from Angelo Mozilo to Dave Sambol, former Executive Managing Director and Chief of Mortgage Banking and Capital Markets at Countrywide Financial (Apr. 17, 2006 5:55 PM PST). Mozilo continued:

> In all my years in the business I have never seen a more toxic prduct. [sic] It's not only subordinated to the first, but the first is subprime. In addition, the [FICOs] are below 600, below 500 and some below 400 . . . . With real estate values coming down . . . the product will become increasingly worse. There has [sic] to be major changes in this program, including substantial increases in the minimum [FICO].

Id.

148. Countrywide sold a product called the "Pay Option ARM." This loan was a 30-year adjustable rate mortgage that allowed the borrower to choose between various monthly payment options, including a set minimum payment. In a June 1, 2006 e-mail, Mozilo noted that

most of Countrywide's Pay Option ARMs were based on stated income and admitted that "[t]here is also some evidence that the information that the borrower is providing us relative to their income does not match up with IRS records." E-mail from Angelo Mozilo to Carlos Garcia, former CFO of Countrywide Financial and Jim Furash, former President of Countrywide Bank (June 1, 2006 10:38 PM PST).

149. An internal quality control report e-mailed on June 2, 2006, showed that for stated income loans, 50.3% of loans indicated a variance of 10% or more from the stated income in the loan application. *See* E-mail from Clifford Rossi, Chief Risk Officer, Countrywide, to Jim Furash, Executive, CEO, Countrywide Bank, N.A., among others (June 2, 2006 12:28 PM PDT).

150. Countrywide, apparently, was "flying blind" on how one of its popular loan products, the Pay Option ARM loan, would perform, and admittedly, had "no way, with any reasonable certainty, to assess the real risk of holding these loans on [its] balance sheet." E-mail from Angelo Mozilo to Dave Sambol, Managing Director Countrywide (Sept. 26, 2006 10:15 AM PDT). Yet such loans were securitized and passed on to unsuspecting investors such as the Credit Unions.

151. With growing concern over the performance of Pay Option ARM loans in the waning months of 2007, Mozilo advised that he "d[id]n't want any more Pay Options originated for the Bank." E-mail from Angelo Mozilo Countrywide to Carlos Garcia, former Managing Director, Countrywide (Nov. 3, 2007 5:33 PM PST). In other words, if Countrywide was to continue to originate Pay Option ARM loans, it was not to hold onto the loans. Mozilo's concerns about Pay Option ARM loans were rooted in "[Countrywide's] inability to underwrite [Pay Option ARM loans] combined with the fact that these loans [we]re inherently unsound unless they are full doc, no more than 75% LTV and no piggys." *Id.*

152. In a March 27, 2006 e-mail, Mozilo reaffirmed the need to "oversee all of the corrective processes that will be put into effect to permanently avoid the errors of both judgement [sic] and protocol that have led to the issues that we face today" and that "the people responsible for the origination process understand the necessity for adhering to the guidelines for 100% LTV sub-prime product. This is the most dangerous product in existence and there can be nothing more toxic and therefore requires that no deviation from guidelines be permitted irrespective of the circumstances." E-mail from Angelo Mozilo to the former Countrywide Managing Directors (Mar. 27, 2006 8:53 PM PST).

153. Yet Countrywide routinely found exceptions to its underwriting guidelines without sufficient compensating factors. In an April 14, 2005 e-mail, Frank Aguilera, a Countrywide managing director, explained that the "spirit" of Countrywide's exception policy was not being followed. He noted a "significant concentration of similar exceptions" that "denote[d] a divisional or branch exception policy that is out side [sic] the spirit of the policy." E-mail from Frank Aguilera, Managing Director, Countrywide, to John McMurray, Managing Director, Countrywide (Apr. 14, 2005 12:14 PM PDT). Aguilera continued: "The continued concentration in these same categories indicates either a) inadequate controls in place to mange [sic] rogue production units or b) general disregard for corporate program policies and guidelines." *Id.* Aguilera observed that pervasive use of the exceptions policy was an industry-wide practice:

> It appears that [Countrywide Home Loans]' loan exception policy is more loosely interpreted at [Specialty Lending Group] than at the other divisions. I understand that [Correspondent Lending Division] has decided to proceed with a similar strategy to appease their complaint customers. . . . [Specialty Lending Group] has clearly made a market in this unauthorized product by employing a strategy that Blackwell has suggested is prevalent in the industry. . . .

Id.

154. Internal reports months after an initial push to rein in the excessive use of exceptions with a "zero tolerance" policy showed the use of exceptions remained excessive. E-mail from Frank Aguilera, Managing Director, Countrywide, to Brian Kuelbs, Managing Director, Countrywide, among others (June 12, 2006 10:13 AM PDT).

155. In February 2007, nearly a year after pressing for a reduction in the overuse of exceptions and as Countrywide claimed to be tightening lending standards, Countrywide executives found that exceptions continued to be used at an unacceptably high rate. Frank Aguilera stated that any "[g]uideline tightening should be considered purely optics with little change in overall execution unless these exceptions can be contained." E-mail from Frank Aguilera, Managing Director, Countrywide, to Mark Elbuam, Managing Director, Countrywide, among others (Feb. 21, 2007 4:58 PM PST).

156. John McMurray, a former Countrywide managing director, expressed his opinion in a September 2007 e-mail that "the exception process has never worked properly." E-mail from John McMurray, Managing Director, to Jess Lederman, Managing Director, Countrywide (Sept. 7, 2007 10:12 AM PDT).

157. Countrywide conceded that the poor performance of loans it originated was, in many cases, due to poor underwriting. In April 2007, Countrywide noticed that its high CLTV ratio stated income loans were performing worse than those of its competitors. After reviewing many of the loans that went bad, a Countrywide executive stated that "in most cases [poor performance was] due to poor underwriting related to reserves and verification of assets to support reasonable income." E-mail from Russ Smith, Countrywide to Andrew Gissinger, Managing Director, Countrywide (Apr. 11, 2007 7:58 AM PDT).

158. On October 6, 2008, 39 states announced that Countrywide agreed to pay up to $8

billion in relief to homeowners nationwide to settle lawsuits and investigations regarding Countrywide's deceptive lending practices.

159. On July 1, 2008, NBC Nightly News aired the story of a former Countrywide regional Vice President, Mark Zachary, who sued Countrywide after he was fired for questioning his supervisors about Countrywide's poor underwriting practices.

160. According to Zachary, Countrywide pressured employees to approve unqualified borrowers. Countrywide's mentality, he said, was "what do we do to get one more deal done. It doesn't matter how you get there [i.e., how the employee closes the deal] . . . ." NBC Nightly News, Countrywide Whistleblower Reports "Liar Loans" (July 1, 2008) ("July 1, 2008 NBC Nightly News"). Zachary also stated that the practices were not the work of a few bad apples, but rather: "It comes down, I think from the very top that you get a loan done at any cost." *Id.*

161. Zachary also told of a pattern of: 1) inflating home appraisals so buyers could borrow enough to cover closing costs, but leaving the borrower owing more than the house was truly worth; 2) employees steering borrowers who did not qualify for a conventional loan into riskier mortgages requiring little or no documentation, knowing they could not afford it; and 3) employees coaching borrowers to overstate their income in order to qualify for loans.

162. NBC News interviewed six other former Countrywide employees from different parts of the country, who confirmed Zachary's description of Countrywide's corrupt culture and practices. Some said that Countrywide employees falsified documents intended to verify borrowers' debt and income to clear loans. NBC News quoted a former loan officer: "'I've seen supervisors stand over employees' shoulders and watch them . . . change incomes and things like that to make the loan work.'" July 1, 2008 NBC Nightly News.

163. Not surprisingly, Countrywide's default rates reflected its approach to

underwriting. *See* 2008 "Worst Ten in the Worst Ten" Report. Countrywide appeared on the top ten list in six of the ten markets: 4th in Las Vegas, Nevada; 8th in Sacramento, California; 9th in Stockton, California and Riverside, California; and 10th in Bakersfield, California and Miami, Florida. When the OCC issued its updated 2009 "Worst Ten in the Worst Ten" Report, Countrywide appeared on the top ten list in every market, holding 1st place in Las Vegas, Nevada; 2nd in Reno, Nevada; 3rd in Merced, California; 6th in Fort Myers-Cape Coral, Florida, Modesto, California, and Stockton-Lodi, California; 7th in Riverside-San Bernardino, California and Fort Pierce-Port St. Lucie, Florida; 8th in Vallejo-Fairfield-Napa, California; and 9th in Bakersfield, California. *See* 2009 "Worst Ten in the Worst Ten" Report.

6. EMC Mortgage's Systematic Disregard of Underwriting Guidelines

164. EMC Mortgage Company ("EMC") was an originator, aggregator and servicer that purchased and securitized a high volume of mortgage loans. Presently, EMC, now known as EMC Mortgage LLC, is a subsidiary of J.P. Morgan Chase & Co.

165. EMC originated or contributed a material portion of the loans in the mortgage pools underlying the Bear Stearns Alt-A Trust 2005-9 and the SACO I Trust 2006-7 offerings. *See infra* Table 6.

166. In 2008, EMC and Bear Stearns settled charges with the Federal Trade Commission ("FTC") over allegations that the EMC engaged in unlawful loan servicing practices that had their genesis in the lack of integrity in EMC's documentation of borrower's loan applications. This September 9, 2008 press release from the FTC reports:

> The Bear Stearns Companies, LLC and its subsidiary, EMC Mortgage Corporation, have agreed to pay $28 million to settle Federal Trade Commission charges that they engaged in unlawful practices in servicing consumers' home mortgage loans. The companies allegedly misrepresented the amounts borrowers owed, charged unauthorized fees, such as late fees, property inspection fees, and loan modification fees, and engaged in unlawful and abusive collection practices.

> Under the proposed settlement they will stop the alleged illegal practices and institute a data integrity program to ensure the accuracy and completeness of consumers' loan information.
>
> "Like other companies that send a bill, mortgage servicers must make sure that the amount they say is due really is the amount due," said Lydia B. Parnes, Director of the FTC's Bureau of Consumer Protection. "Consumers have the right to expect accuracy from the company that collects their mortgage payments.
>
> As stated in the FTC's complaint, Bear Stearns and EMC have played a prominent role in the secondary market for residential mortgage loans. During the explosive growth of the mortgage industry in recent years, they acquired and securitized loans at a rapid pace, but they allegedly paid inadequate attention to the integrity of consumers' loan information and to sound servicing practices. As a result, in servicing consumers' loans, they neglected to obtain timely and accurate information on consumers' loans, made inaccurate claims to consumers, and engaged in unlawful collection and servicing practices. These practices occurred prior to JP Morgan Chase & Co.'s acquisition of Bear Stearns, which became effective on May 30, 2008.
>
> …
>
> The proposed settlement requires Bear Stearns and EMC to pay $28 million to redress consumers who have been injured by the illegal practices alleged in the complaint. In addition, the settlement bars the defendants from future law violations and imposes new restrictions and requirements on their business practices.

Press Release, *Bear Stearns and EMC Mortgage to Pay $28 Million to Settle FTC Charges of Unlawful Mortgage Servicing and Debt Collection Practices*, Federal Trade Comm'n (Sept. 9, 2008), *available at* http://www.ftc.gov/opa/2008/09/emc.shtm.

167. The New York Attorney General's office opened an investigation into possible criminal activity at EMC in "supplying bad information to ratings agencies about the quality of the mortgages they signed off on." This May 14, 2010 article in The Atlantic reported:

> Made up FICO scores? Twenty-minute speed ratings to AAA? If government prosecutors like New York Attorney General Andrew Cuomo want answers to why the mortgage-backed securities market was so screwed up, they should talk to Matt Van Leeuwen from Bear Stearn's servicing arm EMC.

Reports indicated on Thursday that Cuomo is pursuing a criminal investigation surrounding banks supplying bad information to rating agencies about the quality of the mortgages they signed off on….

…

Employed during the go-go years of 2004-2006, and speaking in an interview taped by BlueChip Films for a documentary in final production called Confidence Game, Van Leeuwen sheds some light onto the shenanigans going on during the mortgage boom that might surprise even Cuomo. As a former mortgage analyst at Dallas-based EMC mortgage, which was wholly owned by Bear Stearns, he had first-hand experience working with Bear's mortgage-backed securitization factory. EMC was the "third-party" firm Bear was using to vet the quality of loans that would purchase from banks like Countrywide and Wells Fargo.

Van Leeuwen says Bear traders pushed EMC analysts to get loan analysis done in only one to three days. That way, Bear could sell them off fast to eager investors and didn't have to carry the cost of holding these loans on their books.

According to two EMC analysts, they were encouraged to just make up data like FICO scores if the lenders they purchased loans in bulk from wouldn't get back to them promptly. Every mortgage security Bear Stearns sold emanated out of EMC. The EMC analysts had the nitty-gritty loan-level data and knew better than anyone that the quality of loans began falling off a cliff in 2006. But as the cracks in lending standards were coming more evident the Bear traders in New York were pushing them to just get the data ready for the raters by any means necessary.

In another case, as more exotic loans were being created by lenders, the EMC analyst didn't even know how to classify the documentation associated with the loan. This was a data point really important to the bonds ratings. When Bear would buy individual loans from lenders the EMC analyst said they couldn't tell if it should be labeled a no-doc or full doc loan. Van Leeuwen explains, "I wasn't allowed to make the decision for how to classify the documentation level of the loans. We'd call analysts in Bear's New York office to get guidance." Time was of the essence here. "So, a snap decision would be made up there (in NY) to code a documentation type without in-depth research of the lender's documentation standards," says Van Leeuwen.

Two EMC analysts said instead of spending time to go back to the lender and demand clarification, like if verification of income actually backed these loans, the executives at Bear would just make the loan type fit. Why? One EMC analyst explains, "from Bear's perspective, we didn't want to overpay for the loans, but we don't want to waste the resources on deep investigation: that's not how the company makes money. That's not our competitive advantage – it eats into profits."

Teri Buhl, *More Corruption: Bear Stearns Falsified Information as Raters Shrugged,* The Atlantic, May 14, 2010, *available at* http://www.theatlantic.com/business/archive/2010/05/more-corruption-bear-stearns-falsified-information-as-raters-shrugged/56753/.

168. The FHFA as conservator for Fannie Mae and Freddie Mac has also sued Bear Stearns for making material misstatements and omissions in RMBS Offering Documents. *See* Am. Compl., *FHFA v. JP Morgan,* No. 11-6188 (S.D.N.Y. filed June 13, 2012).

169. The FHFA conducted a forensic review of loans for an RMBS that contained significant amounts of loans from EMC. This review consisted of an analysis of the loan origination file for each loan, including the documents submitted by the individual borrowers in support of their loan applications, as well as an analysis of information extrinsic to each loan file, such as the borrower's motor vehicle registration documentation with pertinent information indicating a borrower's assets or residence, and other information that was available at the time of the loan application, as well as the borrower's filings in bankruptcy proceedings and other sources of information. *Id.* ¶ 362.

170. The FHFA reviewed 535 loan files for Group II-2 pool for the BSMF 2007-AR3. EMC originated 41.49% of the loans in the Group II-2 pool. The FHFA's review revealed that 98% of the loans (523 out of 535) were not underwritten in accordance with the underwriting guidelines or otherwise breached the representations contained in the transaction documents. Of the 523 loans that did not comply with the underwriting guidelines, none had sufficient compensating factors to warrant an exception. *Id.* ¶¶ 359, 367.

171. The FHFA noted several specific examples of how EMC disregarded its underwriting guidelines:

172. In one of FHFA's examples, EMC ignored its underwriting guidelines's

requirement that "[i]ncome must be reasonable for employment stated":

> A loan that closed in January 2007 with a principal amount of $368,000 was originated pursuant to EMC's Low Documentation Program and included in the BSMF 2007-AR3 Securitization. The loan application stated that the borrower was employed as an inspector/foreman of a fire systems company earning $13,500 per month. The Bureau of Labor Statistics reported that the average salary at the 90th percentile for an inspector in the same geographic region in 2006 was $7,675 per month. The borrower's stated income exceeded the Bureau of Labor Statistics' 90th percentile by over 1.5 times, which should have put a reasonably prudent underwriter on notice for potential misrepresentation. The loan file contains no evidence that the loan underwriter assessed the reasonableness of the borrower's stated income. Moreover, the loan file contained the borrower's 2006 and 2007 tax returns provided for modification purposes, which revealed an income for 2006 of only $6,835 per month and indicated the same line of work for both 2006 and 2007. Furthermore, in a Statement of Financial Affairs filed by the borrower as part of a May 2008 Chapter 13 bankruptcy proceeding, the borrower also reported an income in 2006 of only $6,835 per month. A recalculation of DTI based on the borrower's verified same year income yields a DTI of 88.37 percent, which exceeds the guideline maximum allowable DTI of 50 percent. The borrower defaulted and the loan was subsequently liquidated for a loss of $248,583.81, or 67.55 percent of the original loan balance.

Id. ¶¶ 378-379.

173. In two of the FHFA's examples, EMC underwriters ignored obvious red flags of misrepresentations on the loan application:

> A loan that closed in December 2006 with a principal amount of $266,000 was originated pursuant to EMC's Low Documentation Program and included in the BSMF 2007-AR3 Securitization. The loan closed as an owner-occupied limited cash out refinance. The underwriting guidelines for this loan required that at least one of the borrowers occupy the subject property and the loan was represented as owner-occupied. The loss mitigation portion of the loan file includes a copy of the borrower's 2006 tax return that reflects the subject property was a rental residence since December 2005. The loan file also contains copies of the borrower's bank statements and HUD-1, which reflect the borrower's current address as the previous address listed on the loan application. No evidence in the file indicates that the underwriting process addressed these inconsistencies, and the loan was underwritten as if the property was owner-occupied. The borrower defaulted and the loan was subsequently liquidated for a loss of $184,115.84, or 69.22 percent of the original loan balance, and

> A loan that closed in January 2007 with a principal amount of $232,000 was originated pursuant to EMC's Low Documentation Program and included in the BSMF 2007-AR3 Securitization. The loan closed as an owner-occupied rate-term refinance. The applicable guidelines for this loan required that the borrower on the mortgage note occupy the subject property and the loan was represented as owner-occupied. Public records revealed an address for a utility bill from 2004 to 2010 at the subject property address for a person other than the borrower. Public records also revealed a utility bill for the Borrower at an address other than the subject from August 1997 to July 2011. No evidence in the file indicates that the underwriting process addressed these inconsistencies, and the loan was underwritten as if the property was owner-occupied. The borrower defaulted and the loan was subsequently liquidated for a loss of $194,761.55, or 83.95 percent of the original loan balance.

Id. ¶ 381.

174. And finally, the FHFA highlighted an instance in which EMC had failed to evaluate a borrower's ability to repay by not considering all of the liabilities that the underwriting guidelines required it to consider:

> A loan that closed in January 2007 with a principal amount of $240,000 was originated pursuant to EMC's Low Documentation Program and included in the BSMF 2007-AR3 Securitization. The lender failed to properly calculate the borrower's debts. The audit credit report revealed an undisclosed installment loan for $23,424 opened in October 2006, 3 months prior to the loan application, with a payment of $406 per month. The loan was not yet reporting on the origination credit report and the borrower failed to disclose the debt on the loan application. There was no evidence in the loan file that the underwriter requested or obtained an explanation from the borrower for the 4 inquiries, dated from October 28, 2006 through November 20, 2006, listed on the origination credit report. A recalculation of DTI based on the borrower's undisclosed debt and verified income yields a DTI of 137.37 percent, which exceeds the guideline maximum allowable DTI of 55 percent. The borrower defaulted and the loan was subsequently liquidated for a loss of $184,875.88, or 77.03 percent of the original loan balance.

Id. ¶ 385.

175. In fact, the FHFA determined that 89 of the 535 loans (25.2%) it reviewed from the BSMF 2007-AR3 offering incorrectly calculated the borrower's debts which, if corrected, would have caused the debt-to-income ratio to exceed the applicable underwriting guidelines.

Id. ¶ 386.

176. The FHFA also alleged that, in an effort to securitize even more loans, EMC told third-party due diligence firms to reduce the scrutiny given to loan files. In an e-mail dated April 5, 2007, an EMC Assistant Manager for Quality Control Underwriting and Vendor Management ordered Adfitech, Inc. ("Adfitech") not to take efforts to verify information in a loan file, directing:

- "Effective immediately, in addition to not ordering occupancy inspections and review appraisals, DO NOT PERFORM REVERIFICATIONS OR RETRIEVE CREDIT REPORTS ON THE SECURITIZATION BREACH AUDITS,"
- Do not "make phone calls on employment," and
- "Occupancy misrep is not a securitization breach.

Id. ¶ 479.

177. According to the FHFA, former EMC mortgage analyst Matthew Van Leeuwen—the same individual interviewed in the aforementioned *Atlantic* article—confirmed in a March 30, 2009 e-mail that "the pressure was pretty great for everybody to just churn the mortgages on through the system," so that if there were "outstanding data issues" analysts should just "fill in the holes." According to Van Leeuwen, "missing credit score would magically become a 680 in Bear's system, things like that." For example, EMC's Senior Vice President of Conduit Operations, Jo-Karen Whitlock, told her staff to do "whatever is necessary" to meet Bear Stearns' objectives for desired loan production. Her April 14, 2006 e-mail further stated:

> I refuse to receive any more emails … questioning why we're not funding more loans each day. I'm holding each of you responsible for making sure we fund at least 500 each and every day…. [I]f we have 500+ loans in this office we MUST find a way to … buy them…. I expect to see 500+ each day…. I'll do whatever is necessary to make sure you're successful in meeting this objective.

Id. ¶¶ 482, 489.

178. In FHFA's suit, the district court denied Bear Stearns's motion to dismiss, holding that the FHFA's allegations "amply support FHFA's assertion that the Offering Documents for the Securitizations contained false statements regarding originators' compliance with underwriting standards." *FHFA v. JPMorgan Chase & Co.*, No. 11-6188, 2012 WL 5395646, at *8 (S.D.N.Y Nov. 5, 2012).

179. Bear Stearns shareholders brought a class action complaint against Bear Stearns regarding its mortgage-backed securities business. The complaint contained allegations by several confidential witnesses. One confidential witness was a Quality Control and Reporting Analyst at EMC from April 2006 through August 2007, and reviewed and examined loan origination and loan portfolio statistics on subprime loans purchased by EMC, and also created reports for upper management at EMC. That confidential witness confirmed that EMC would buy almost everything, including extremely risky loans where the borrower's income and ability to pay could not be verified. Compl., *In re Bear Stearns Cos., Sec., Derivative, & ERISA Litig.* No. 08-2793, ¶ 58 (S.D.N.Y filed Feb. 27, 2009).

180. Another confidential witness, who was a Collateral Analyst with Bear Stearns in the first half of 2007, revealed that Bear Stearns understood that the loans it was purchasing through EMC were unusually risky. That confidential witness reported that during the latter part of 2006 and the beginning of 2007 EMC was "buying everything" without regard for the riskiness of the loan. The confidential witness explained that because of the potential for profits from securitizing these loans Bear Stearns managers looked the other way and did not enforce basic underwriting standards. *Id.* ¶ 59.

181. The complaint also alleged that Bear Stearns, through EMC, aggressively purchased exceptionally risky mortgages that were already in default in the hopes of bringing the

borrower back into compliance and securitizing the loan along with other acquired and originated mortgages (so called "scratch and dent" loans). A special desk at Bear Stearns was designated to securitize the "scratch and dent" loans and sell them to investors. *Id.* ¶ 62.

182. The Bear Stearns' shareholder suit settled for $275 million. *See* Chris Dolmetsch, *Bear Stearns Settlement Gets U.S. Judge's Approval*, Bloomberg (Nov. 9, 2012), *available at* http://www.bloomberg.com/news/2012-11-09/bear-stearns-settlement-gets-u-s-judge-s-approval.html.

183. Bear Stearns has also been sued by Ambac Assurance Corp. ("Ambac"). Ambac provided monoline insurance for several Bear Stearns-underwritten RMBS that contained loans from EMC. After suffering staggering losses, Ambac conducted a loan-level review of 6,309 of the loans. It found that 5,724 (90%) breached one or more of EMC's representations and warranties, including:

- rampant fraud, primarily involving misrepresentation of the borrower's income, assets, employment, or intent to occupy the property as the borrower's residence (rather than as an investment), and subsequent failure to so occupy the property;
- failure by the borrower to accurately disclose his or her liabilities, including multiple other mortgage loans taken out to purchase additional investment property;
- inflated and fraudulent appraisals; and,
- pervasive violations of the loan originators' own underwriting guidelines and prudent mortgage-lending practices, including loans made to borrowers (i) who made unreasonable claims as to their income, (ii) with multiple, unverified social security numbers, (iii) with debt-to-income and loan-to-value ratios above the allowed maximums, or (v) with relationships to the applicable originator or other non-arm's-length relationships.

First Am. Compl., *Ambac Assurance Corp. v. EMC Mortg. LLC*, No. 650421/2011, ¶ 280 (N.Y. Sup. Ct. filed July 18, 2011).

184. On October 1, 2012, the People of the State of New York took action against J.P. Morgan Securities. The Complaint highlights EMC's extensive disregard of underwriting standards, alleging that:

> The review of loans that Defendants purchased through the flow channel was equally superficial and focused on quantity at the expense of quality. EMC underwriters were typically required to underwrite fifteen to twenty loan files per day, and the pressure to review this high volume of loans often came in second half of the month if the volume of funded loans was not on track to meet the monthly target.
>
> …
>
> To drive home the point, that same manager stressed to her staff that EMC "hit the target number," which was a funding volume of $2 billion for that month. In other words, EMC had to underwrite and purchase $2 billion worth of mortgage loans in a single month. Multiple confidential witnesses, former employees of EMC, have confirmed Defendants' "whatever is necessary" approach to achieve aggressive volume goals.
>
> As the volume of loans acquired by EMC through its flow channel increased dramatically, Defendants took measures to expedite their loan review, which had the effect of reducing the amount of due diligence for originators in certain designated "tiers." For example, EMC divided its flow channel sellers into five tiers based on the volume and the estimated quality of the loans supplied to EMC, and performed "streamline," or abridged, reviews for loans from certain of these sellers. Moreover, as mentioned above, the review process itself – which gave underwriters and Team Leads discretion to approve but not to reject loans – was set up so as to make approval of a loan the path of least resistance.

Compl., New *York v. J.P. Morgan Sec.*, No. 451556-2012, ¶¶ 55, 57-58 (N.Y. Sup. filed Oct. 1, 2012).

7. Fremont Investment and Loan's Systematic Disregard of Underwriting Standards

185. Fremont Investment and Loan, Inc. ("Fremont") contributed loans to the SG Mortgage Securities Trust 2006-FRE2 offering. *See infra* Table 6.

186. Senator Carl Levin, at a hearing before the Senate PSI, singled out Fremont as a lender "'known for poor quality loans.'" Opening Statement of Sen. Carl Levin, Chairman,

Permanent S. Comm. on Investigations, Hearing on *Wall Street and the Financial Crisis: The Role of Credit Rating Agencies* (Apr. 23, 2010). Senator Levin recounted how an analyst with S&P raised concerns about the quality of Fremont-originated loans in a Goldman Sachs RMBS offering:

> In January 2007, S&P was asked to rate an RMBS being assembled by Goldman Sachs using subprime loans from Fremont Investment and Loan, *a subprime lender known for loans with high rates of delinquency*. On January 24, 2007, an analyst wrote seeking advice from two senior analysts: "I have a Goldman deal with subprime Fremont collateral. *Since Fremont collateral has been performing not so good, is there anything special I should be aware of*?" One analyst responded: "*No, we don't treat their collateral any differently.*" The other asked: "are the FICO scores current?" "Yup," came the reply. Then "You are good to go." In other words, *the analyst didn't have to factor in any greater credit risk for an issuer known for poor quality loans, even though three weeks earlier S&P analysts had circulated an article about how Fremont had severed ties with 8,000 brokers due to loans with some of the highest delinquency rates in the industry*. In the spring of 2007, Moody's and S&P provided AAA ratings for 5 tranches of RMBS securities backed by Fremont mortgages. By October, both companies began downgrading the CDO. Today all five AAA tranches have been downgraded to junk status.

Id. (emphasis added).

187. Fremont currently faces a lawsuit filed by Cambridge Place Investment, Inc., which is mentioned in this August 15, 2010 article in the Myrtle Beach Sun-News:

> Cambridge hinges much of its case on 63 confidential witnesses who testified in court documents about the reckless lending practices that dominated the subprime market during the real estate boom.
>
> Fremont, for example, regularly approved loans with unrealistic stated incomes – such as pizza delivery workers making $6,000 a month, according to the lawsuit.
>
> Other Fremont witnesses said in court documents that loan officers spotted and ignored fraudulent information, such as falsified pay stubs, every day.

David Wren, *Myrtle Beach Area Loans Lumped Into Spiraling Mortgage-Backed Securities*, MYRTLE BEACH SUN-NEWS, Jan. 13, 2011, at A. On September 28, 2012, the court denied in principal part Defendants' Joint Motion to Dismiss For Failure to State a Claim. *See Cambridge*

Place Inv. Mgmt. Inc. v. Morgan Stanley & Co., Inc., et al., Case No. 10-2741 (Mass. Super).

188. On December 21, 2011, the Federal Housing Finance Agency ("FHFA") filed an amended complaint against UBS Americas, Inc., alleging securities laws violations concerning RMBS purchases made by Freddie Mac and Fannie Mae. In the complaint, the FHFA alleged:

> A confidential witness who previously worked at Fremont in its system operations and underwriting sections stated that Fremont consistently cut corners and sacrificed underwriting standards in order to issue loans. He noted that "Fremont was all about volume and profit," and that when he attempted to decline a loan, he was regularly told "you have signed worse loans than this." The same witness also said that employees at Fremont would create documents that were not provided by the borrowers, including check stubs and tax documents, in order to get loans approved. The confidential witness stated that Fremont regularly hired underwriters with no experience, who regularly missed substantial numbers of answers on internal underwriting exams. He explained that like many Fremont employees, he quit because he was uncomfortable with the company's practices.

See Federal Housing Fin. Agency v. UBS Americas, Inc., Case No. 11 Civ. 05201 (S.D.N.Y.) (Second Amended Complaint, filed Dec. 21, 2011). The court denied a motion to dismiss the complaint in May 2012. *See Federal Housing Fin. Agency v. UBS Americas, Inc.*, 858 F. Supp. 2d 306 (S.D.N.Y. 2012). On July 25, 2013, the FHFA announced that it had reached an agreement to settle the case for $885 million.

189. Fremont was also included in the 2008 "Worst Ten in the Worst Ten" Report, ranking 1st in Miami, Florida; 3rd in Riverside, California; 4th in Denver, Colorado and Sacramento, California; 5th in Stockton, California; 6th in Detroit, Michigan and Las Vegas, Nevada; 7th in Bakersfield, California; and 10th in Memphis, Tennessee. *See* 2008 "Worst Ten in the Worst Ten" Report. In the 2009 "Worst Ten of the Worst Ten" Report, Fremont holds the following positions: 2nd in Fort Myers-Cape Coral, Florida and Fort Pierce-Port St. Lucie, Florida; 4th in Riverside-San Bernardino, California; 5th in Stockton-Lodi, California and Vallejo-Fairfield-Napa, California; 7th in Las Vegas, Nevada and Modesto, California; and 8th

in Bakersfield, California and Merced, California. *See* 2009 "Worst Ten in the Worst Ten" Report.

8. GMAC's Systematic Disregard of Underwriting Standards

190. GMAC Bank n/k/a Ally Bank and GMAC Mortgage originated or contributed a material portion of the loans in the mortgage pool underlying the GMACM Home Equity Loan Trust 2006-HE1 and the GMACM Home Equity Loan Trust 2006-HE5 offerings. *See infra* Table 6.

191. GMAC's abandonment of its underwriting guidelines is at issue in suits filed by MBIA, Inc. MBIA was a monoline insurer for loans in RMBS. *See* Compl., *MBIA Ins. Corp. v. Ally Fin., Inc.*, No. 12-18889 (MN Ct., Hennepin Cnty. filed Sept. 17, 2012) ("*MBIA v. Ally* Compl."); Compl., *MBIA Ins. Corp. v. GMAC Mortg., LLC*, No. 600837/2010 (N.Y. Sup. Ct. filed Apr. 1, 2010) ("*MBIA v. GMAC* Compl.").

192. MBIA's suits concern loans underlying the GMACM 2004-HE4, GMACM 2006-HE4, and GMACM 2007-HE1. Ally Bank f/k/a GMAC Bank and GMAC Mortgage were the principal originators for the loans in these offerings. *MBIA v. Ally* Compl. ¶¶ 7, 45; *MBIA v. GMAC* Compl. ¶¶ 2, 44.

193. After sustaining large losses, MBIA conducted forensic analyses of loans underlying these offerings. MBIA found material breaches of representations and warranties in more than 89% of the loans from GMAC Mortgage. These breaches included:

- GMAC Mortgage egregiously and routinely breached its representation and warranty that the mortgage loans were underwritten generally in compliance with GMAC Mortgage's underwriting standards.
- A significant number of mortgage loans were made on the basis of "stated incomes" that were grossly unreasonable or were approved despite DTI or CLTV ratios in excess of the cut-offs stated in

GMAC Mortgage's Underwriting Guidelines or the Purchase Agreements or Prospectus Supplements.

- Moreover, contrary to its Underwriting Guidelines, GMAC Mortgage failed in many cases to verify the borrower's employment when required to do so or to verify prior rental or mortgage payment history, approved mortgage loans with ineligible collateral, approved mortgage loans to borrowers with ineligible credit scores, and approved loans without verifying that the borrower had sufficient funds or reserves.

- GMAC Mortgage used its proprietary automated electronic loan underwriting program, known as "Assetwise," to approve loans that did not comply with its Underwriting Guidelines. Assetwise assisted in the underwriting of mortgage loans by automating the process of determining whether a loan met prespecified underwriting criteria set up in the program. GMAC Mortgage used the program itself and also made the program available to its affiliates. Assetwise, however, failed to analyze proposed mortgage loans using the criteria set forth in GMAC Mortgage's Underwriting Guidelines. As a result, GMAC Mortgage routinely contributed loans to the Transactions that failed to comply with its own underwriting standards.

MBIA v. GMAC Compl. ¶ 76; *see MBIA v. Ally* Compl. ¶¶ 76-83; *MBIA v. GMAC* Compl. ¶¶ 70-79.

194. Representative examples of the breaches encountered by the MBIA include:

- On January 25, 2006, a loan in the amount of $210,000 was made to a borrower in Vacaville, California on a property with an original appraisal value of $460,000 and a senior loan balance of $368,150. The borrower was employed as a correctional officer by the State of California. The loan was approved based on a DTI that was calculated using the borrower's highest reported monthly income, rather than his average income over a 33-month period, as is required by the Underwriting Guidelines. As a result, the true DTI on the loan was 65.56%, which exceeded the maximum ratio of 50% permitted under the applicable loan program. The CLTV ratio of 125.68% also exceeded the maximum CLTV ratio of 100% permitted under the Guidelines. The loan has been charged-off (Loan # 8601487693 — 2004 Transaction.)

- On April 20, 2007, a loan in the amount of $40,000 was made to co-borrowers in Vernon, New Jersey on a property with an original appraisal value of $305,000 and a senior loan balance of $244,000. The loan file is incomplete and lacks, among other documents, verbal verification of either borrower's employment, evidence of sufficient closing funds and reserves, an appraisal, a copy of the note from the senior lien, and the borrowers' credit reports. Further, the loan was approved even though the income stated by each borrower was unreasonable. One claimed to earn $4,583 per month as a counter manager at a discount tire store though, for example, salary.com, a website which maintains a national salary database based on job title and zip code, reports that the income at the 90th percentile for such a position is only $2,801 per month. The second borrower claimed to earn $59,592 annually as a sales associate at a home improvement store, but an income verification database showed that the borrower earned only $28,092 in 2006 and $32,977 in 2007. The loan has been charged-off (Loan # 1000117685 — 2006 Transaction.)

- On December 15, 2006, a loan in the amount of $22,000 was made to a borrower in Medford, Oregon on a property with an original appraisal value of $220,000 and a senior loan balance of $176,000. The loan file is missing many documents that bear upon the borrower's ability to repay and are required to be included in the file, including: verification of down payment funds, a CPA letter, an appraisal, a twelve-month housing history, a copy of the first mortgage, a preliminary title commitment, a credit report, and the final loan application. Moreover, although the borrower, an operator at a drywall company, had declared bankruptcy prior to applying for the loan, the loan file lacks documentation that the bankruptcy had been discharged for at least three years, as required by the Guidelines. The loan has been charged off. (Loan # 8254682837 – 2007 Transaction.)

- On January 23, 2007, a loan with a principal balance of $100,000 was made to a borrower in Yuma, Arizona on a property with an original appraisal value of $298,000 and a senior loan balance of $129,035. The borrowers claimed on their loan application that their combined income was $113,520 per year. However, on May 12, 2009, the borrowers jointly filed for bankruptcy under Chapter 7, and their court filings indicated that they earned only $13,085 in 2007 and $17,650 in 2008. Moreover, no record of the borrower's claimed employer can be located on websites commonly used to verify the existence of a business: manta.com or yellowpages.com. The loan has been charged-off. (Loan # 8254730412 – 2007 Transaction.)

MBIA v. GMAC Compl. ¶ 78.

195. Both suits are still pending. The Court in *MBIA v. GMAC* denied a motion to dismiss; there have been no rulings in *MBIA v. Ally*. *See MBIA v. GMAC*, 914 N.Y.S.2d 604 (N.Y. Sup. Ct. 2010); *MBIA v. RFC*, Order, No. 603552/08 (N.Y. Sup. Ct. Dec. 22, 2009).

196. GMAC's disregard of its underwriting guidelines has led to the repurchase of loans it had sold to Fannie Mae. As of September 10, 2010, Fannie Mae had required GMAC to repurchase 2,887 loans because of violations of representations and warranties regarding those loans. They had a total unpaid principal balance of $544 million. *See* Letter to Gary Cohen, FCIC (Sept. 21, 2010), Attach. "Total Aggregate Recovery, Data as of 8/31/2010," at 1, *available at* http://fcic-static.law.stanford.edu/cdn_media/fcic-docs/2010-09-21%20Fannie%20Mae%20Counsel%20letter%20to%20the%20FCIC.pdf.

9. GreenPoint Mortgage Funding Inc.'s Systematic Disregard of Underwriting Standards

197. GreenPoint Mortgage Funding Inc. ("GreenPoint") contributed a material portion of the loans in the mortgage pool underlying the Bear Stearns Second Lien Trust 2007-1, J.P. Morgan Alternative Loan Trust 2006-A2, J.P. Morgan Alternative Loan Trust 2007-A1, J.P. Morgan Alternative Loan Trust 2007-A2 and the SACO I Trust 2006-12 offering. *See infra* Table 6.

198. GreenPoint, based in Novato, California, was the wholesale mortgage banking unit of Capital One Financial Corp. ("Capital One"). Capital One acquired GreenPoint when it purchased GreenPoint's holding company, North Fork Bancorp, in December 2006. Capital One shut down GreenPoint's operations less than one year later on August 21, 2007.

199. According to a press release issued by Capital One on August 20, 2007, GreenPoint had an "originate and sell" (*i.e.*, OTD) business model with a focus on "prime non-

conforming and near-prime markets, especially the Alt-A mortgage sector." Capital One eventually liquidated GreenPoint in December 2008, taking an $850 million write-down due to mortgage-related losses associated with GreenPoint's origination business.

200. When originating stated income loans, GreenPoint often inflated the borrowers' income by more than 50%. A September 12, 2008, article on Bloomberg reports on GreenPoint's underwriting practices:

> Many Alt-A loans go to borrowers with credit scores higher than subprime and lower than prime, and carried lower interest rates than subprime mortgages.
>
> So-called no-doc or stated-income loans, for which borrowers didn't have to furnish pay stubs or tax returns to document their earnings, were offered by lenders such as GreenPoint Mortgage and Citigroup Inc. to small business owners who might have found it difficult to verify their salaries.
> . . .
>
> "To grow, the market had to embrace more borrowers, and the obvious way to do that was to move down the credit scale," said Guy Cecala, publisher of Inside Mortgage Finance. "Once the door was opened, it was abused."
> . . .
>
> Almost all stated-income loans exaggerated the borrower's actual income by 5 percent or more, and more than half increased the amount by more than 50 percent, according to a study cited by Mortgage Asset Research Institute in its 2006 report to the Washington-based Mortgage Bankers Association.

Dan Levy & Bob Ivry, *Alt-A Mortgages Next Risk for Housing Market as Defaults Surge*, BLOOMBERG, Sept. 12, 2008, *available at* http://www.bloomberg.com/apps/news?pid=newsarchive&sid=arb3xM3SHBVk.

201. U.S. Bank, the indenture trustee of GreenPoint Mortgage Funding Trust 2006-HE1, sued GreenPoint in order to force GreenPoint to repurchase the loans that GreenPoint had contributed to the RMBS. U.S. Bank alleged that GreenPoint "pervasive[ly] fail[ed] to follow its underwriting guidelines during the origination of the Loans." *U.S. Bank Nat'l Assoc. v. GreenPoint Mortg. Funding, Inc.*, No. 600352/09, 2010 WL 841367, at *7 (N.Y. Sup. Ct. Mar.

3, 2010); *see also* Compl., *U.S. Bank Nat'l Assoc. v. GreenPoint Mortg. Funding, Inc.*, 2009 WL 6084150, ¶ 35 (N.Y. Sup. Ct. Feb. 5, 2009) (alleging pervasive misrepresentations of borrowers' income, assets, employment, intent to occupy the property, inflated appraisal values, and violations of GreenPoint's underwriting guidelines regarding credit scores, debt-to-income ratios, and loan-to-value ratios).

202. U.S. Bank based its allegations on its forensic analysis of GreenPoint-originated loans. Of 1,030 randomly sampled loans, U.S. Bank found that 93% were in violation of GreenPoint's underwriting guidelines. *See id*. at *7 n.4. Its complaint survived a motion to dismiss. *See id*. at *8.

203. Syncora Guarantee, a monoline insurer, sued EMC in connection with an RMBS sponsored by EMC, underwritten by Bear Stearns and exclusively collateralized by GreenPoint-originated loans. After sustaining large losses due to the poor performance of GreenPoint loans, Syncora hired an independent consultant to "reunderwrite" hundreds of the GreenPoint loans, 400 of which were randomly selected without regard to payment status. Over 85% of the randomly selected 400 loans contained misrepresentations. The misrepresentations uncovered include:

- Rampant fraud, primarily involving misrepresentation of the borrower's income, assets, employment, or intent to occupy the property as the borrower's residence (rather than as an investment), and subsequent failure to so occupy the property;

- Failure by the borrower to accurately disclose his or her liabilities, including multiple other mortgage loans taken out to purchase additional investment property;

- Inflated and fraudulent appraisals; and,

- Pervasive violations of GreenPoint's own underwriting guidelines and prudent mortgage lending practices, including loans made to borrowers (i) who made unreasonable claims as to their income,

> (ii) with multiple, unverified social-security numbers, (iii) with credit scores below the required minimum; (iv) with debt-to-income and loan-to-value ratios above the allowed maximums, or (v) with relationships to GreenPoint or other non-arm's-length relationships.

See Compl., *Syncora Guar. Inc. v. EMC Mortgage Corp.*, ¶ 6 , 50-51, No. 09-cv-3106 (PAC) (S.D.N.Y. filed Mar. 31, 2009).

204. GreenPoint's own employees have corroborated the findings of U.S. Bank and Syncora. A confidential witness in *Federal Home Loan Bank of Indianapolis v. Banc of America Mortgage Securities, Inc.*, confirmed that (1) GreenPoint employees faced intense pressure to close loans at any cost; (2) GreenPoint managers overrode employees' decisions to reject loans and approved loans based upon inflated incomes; (3) GreenPoint approved loans that contained exceptions for which there were no reasonable compensating factors; and (4) GreenPoint failed to adhere to sound underwriting guidelines. This confidential witness was a senior loan underwriter at GreenPoint from October 1997 through August 2007. *See* Compl., *Fed. Home Loan Bank of Indianapolis v. Banc of Am. Mortg. Secs., Inc.*, ¶ 265, No. 49D051010PL045071 (Ind. Sup. Ct., Marion Cnty. filed Oct. 15, 2010) ("FHLB Indianapolis").

205. According to that confidential witness, sales staff and managers at GreenPoint received bonuses based on the number of loans closed. As she said, "sales had tremendous authority" at GreenPoint, and "[t]hey were in business to make more money. They would try to find any way to close a loan." *Id*. ¶ 266.

206. Between 2005 and 2007, the confidential witness said that stated income loans became increasingly popular and GreenPoint managers approved loans based upon inflated incomes that she believed should not have been approved. She saw a lot of loans with stated "income that was more than could be justified by the borrower's employment." When she

denied loans because she believed the income was inflated, sometimes the underwriting managers, operations managers, and the regional operations manager overrode her decisions. *Id.* ¶ 267.

207. More often than not, the confidential witness believed that her managers overrode her denials due to the incentives that they received based upon loan volume. As she said, "They were making the decision because they had to hit certain sales numbers." She was aware of such targets because of comments made in operations meetings about the company needing to meet certain goals. *Id.* ¶ 268.

208. The FHLB Indianapolis suit survived a motion to dismiss, with the Court holding, "the plaintiff has, indeed, stated a claim upon which relief can be granted on the issue of underwriting guidelines." *Fed. Home Loan Bank of Indianapolis v. Bank of Am. Mortg. Secs., Inc.*, No. 49D051010PL045071, 2012 WL 2844690 (Ind. Sup. Ct., Marion Cnty. July 3, 2012).

209. In *Allstate Bank v. J.P. Morgan Chase, N.A.*, Allstate, an RMBS investor, sued J.P. Morgan, the RMBS underwriter, for misrepresentations in RMBS offering documents. Allstate's complaint relied on several confidential witnesses. One confidential witness, who was an underwriting analyst at GreenPoint from 2003 to 2007, stated that GreenPoint reviewed only 10% of the loans it originated for fraud. He thought this was a "mistake" because the fraud and misrepresentation uncovered in the 10% sample indicated that many more loans likely contained fraud. But the remaining 90% of the loans were not reviewed. Am. Compl., *Allstate Bank v. JPMorgan Chase, N.A.*, ¶ 485, No. 11-1869 (S.D.N.Y. filed May 10, 2012).

210. That confidential witness also stated that sales personnel ran GreenPoint, and senior management was comprised of people from sales who were incentivized to push the volume of mortgage loans, not adherence to the underwriting guidelines or due diligence.

Managers' bonuses were tied to production volume, and they were not penalized if loans were later found to be fraudulent or if the borrower defaulted on the first payment. He stated that GreenPoint's management deliberately overlooked misrepresentations from mortgage loan brokers, particularly if the broker brought in a high volume of loans. Problem brokers were rarely suspended, and even when they were, there was never a review of the loans they originated that were already in the pipeline. *Id*. ¶ 486.

211. Another confidential witness was a Wholesale Account Manager at GreenPoint from 2004 to 2006. That confidential witness stated that GreenPoint employees understood that if a mortgage loan could eventually be sold to Wall Street, GreenPoint was to approve and fund the mortgage loan. The majority of the loan products originated in the confidential witness's office were stated income-stated asset loans and pay-option ARMs. Despite the risk inherent in these products, the sales force "never learned of negative loan performance" and their compensation was in no way tied to loan performance. *Id*. ¶ 487.

212. Another confidential witness was an Underwriting Supervisor at GreenPoint from 2005 to 2006 and supervised five Underwriters and three Conditions Specialists. That confidential witness stated that GreenPoint management authorized exceptions to loan underwriting guidelines in order to approve applications, even when there were no compensating factors justifying the exceptions. The confidential witness was aware that management overrode decisions to refuse funding in locations known for fraud and property flipping, even when evidence of fraud was found. According to the confidential witness, "if the borrower is breathing and could sign loan documents, they could get a loan" from GreenPoint. *Id*. at ¶ 488.

213. *Allstate's* complaint also alleged that many of GreenPoint's loans were granted by the over 18,000 brokers that were approved to transact with GreenPoint – a large enough number

that GreenPoint could not exercise any realistic degree of control. Typically, new brokers were actively monitored for only the first five to seven loans submitted, usually during only the first 90 days of being approved. *Id.* ¶ 490.

214. This was problematic because mortgage brokers were known to commit fraud in order to get loan applications approved by originators. As one former mortgage wholesaler put it, "I'd walk into mortgage shops and see brokers openly cutting and pasting income documents and pay stubs, getting out the Wite-Out and changing Social Security numbers." Mara Der Hovanesian, *Sex, Lies, and Subprime Mortgages*, Bloomberg Businessweek (Nov. 12, 2008), *available at* http://www.businessweek.com/stories/2008-11-12/sex-lies-and-subprime-mortgages.

215. GreenPoint's pervasive disregard of underwriting standards resulted in its inclusion among the worst ten originators in the 2008 "Worst Ten in the Worst Ten" Report. GreenPoint was identified 7th worst in Stockton, California, and 9th worst in both Sacramento, California, and Las Vegas, Nevada. *See* 2008 "Worst Ten in the Worst Ten" Report. In the 2009 "Worst Ten in the Worst Ten" Report, GreenPoint was listed as 3rd worst in Modesto, California; 4th worst in Stockton, Merced, and Vallejo-Fairfield-Napa, California; 6th worst in Las Vegas, Nevada; and 9th in Reno, Nevada. *See* 2009 "Worst Ten in the Worst Ten" Report.

10. Impac's Systematic Disregard of Underwriting Standards

216. Impac Funding Corporation ("Impac") is a mortgage company that acquires, purchases, and sells mortgage loans. It is a California corporation which is headquartered in Irvine, California. Impac originated or contributed a material portion of the loans in the mortgage pool underlying the Impac CMB Trust Series 2005-2, the Impac CMB Trust Series 2005-6 and the SACO Trust I 2006-2 offerings. *See infra* Table 6.

217. Massachusetts Mutual Life Ins. Co. ("Mass. Mutual"), an RMBS investor like the Credit Unions, recently sued Impac regarding RMBS for which Impac was the sponsor. Mass. Mutual conducted a forensic analysis of loans underlying an RMBS it had purchased. The analysis revealed that 48% of the loans tested had appraisals inflated by 10% or more, and 34% of the loans tested had LTVs that were 10 or more points more than represented. Additionally, 15.45% of the loans that had been represented to be owner occupied were determined not to be owner occupied. *See* Compl., *Massachusetts Mutual Life Ins. Co. v. Impac Funding Corp.*, No. 11- 30127, ¶¶ 87-88, 95 (D. Mass. filed May 6, 2011).

218. Impac's faulty loan origination practices were the subject of a suit by a class of its shareholders. Their complaint contained detailed accounts of former employees regarding Impac's disregard of its underwriting guidelines. *See* Third Am. Compl., *Pittleman v. Impac. Mortg. Holdings, Inc.*, No. 07-970 (C.D. Cal. filed Oct. 27, 2008).

219. One former employee (Employee #1) was an underwriting manager in charge of loan due diligence from October 2003 until July 2006. Employee #1's job was to perform due diligence on bulk loans by conducting a sampling of each loan pool. That job included interacting with individual mortgage brokers who would sell loans to Impac in bulk, evaluating bulk loans and making recommendations as to whether or not Impac should buy particular loans and/or loan portfolios which were then resold in the secondary markets. Bulk loans were typically valued in the $5 million dollar range and higher. *Id.* ¶ 46.

220. Employee #1 reported to Kevin Gillespie, Vice President of Underwriting, and Scott Hedbon, Chief Credit Officer. Both Gillespie and Hedbon reported to William Ashmore, Impac's President, and Gillespie and Ashmore (plus Joseph Tomkinson, Impac's CEO) were members of the Loan Committee. After conducting due diligence on a bulk

loan, Employee #1 would generate a detailed report regarding that loan pool, which included an approval or rejection recommendation. Every report was then e-mailed to Employee #1's superiors, including Tomkinson and Ashmore. *Id.* ¶ 47.

221. Employee #1 stated that Impac's underwriting guidelines were applied to bulk loans. He said that the bulk guidelines were revised on a regular basis and that bulk guidelines would change on a broker to broker basis. Employee #1 further stated that when bulk loan pools did not satisfy Impac guidelines, they were still approved by management on a regular basis, and specifically by Ashmore. Ashmore's rationale for constantly reversing rejection recommendations was that everyone in the industry was engaging in this type of practice. Ashmore would justify his overriding the underwriting department recommendations by stating that "everybody is doing it" or "if we didn't do it, someone else would." *Id.* ¶ 48.

222. One method of reversing bulk loan rejection recommendations was as follows. Employee #1 would conduct due diligence on a bulk loan pool by reviewing a sampling of the bulk loan, for example 10 loans. If 5 of the 10 loans did not comply with Impac underwriting guidelines, the loan pool was recommended for rejection. However, Impac management, under the direction of Ashmore and in violation of standard due diligence procedures, would simply replace the 5 non-compliant loans with 5 loans that "satisfied" Impac underwriting guidelines and then approve the *entire* bulk loan pool for sale to investors. *Id.* ¶ 49.

223. Employee #1 also noted that certain companies were notorious for selling bulk loan pools to Impac that did not meet underwriting guidelines. These companies included Pinnacle Financial Corporation (a company that Impac eventually acquired), Windham Mortgage, and American Home Loans. Employee #1 specifically recalled numerous instances

of bad loan pools which were purchased from third parties, some of which had to be repurchased by Impac. He remembers significant pressure to approve a loan pool from Windham Mortgage which was valued in the millions. He also recalled that Impac was forced to repurchase approximately $50 million worth of loans by Impac from Countrywide, in June-July of 2006, because the loans sold by Impac did not meet underwriting guidelines. During the same time frame, he stated that Novelle was a division of Impac that had so many bad loans (loans that did not comply with Impac's underwriting guidelines), that the division was closed and the loans were securitized and sold to investors. These loans were worth tens of millions of dollars, if not more. *Id.* ¶ 50.

224. Employee #1 left Impac out of frustration because he said the majority of loans that were being recommended for rejection were regularly approved for sale to investors. As a result, he felt that performing due-diligence on bulk loan pools was a waste of his time when Ashmore would just override the results of the due diligence. According to Employee # 1, all management was looking for was a due-diligence officer to "rubber-stamp" the loan pools because investors in the securitized loan pools required a certain level of quality control concerning these financial instruments. *Id.* ¶ 51.

225. Employee #1 cited another example, in April or May of 2006, where Impac was offered a loan pool from a seller with a past history of selling bad loans to Impac. Employee #1 notified Linda Sepulveda, Vice President of Operations, that Impac had previously "uncovered fraud" in past loans from this seller, and recommended that Impac (a) decline to purchase the loan pool and (b) permanently remove the seller from Impac's list of approved customers. Employee # 1, Sepulveda, and Sepulveda's boss, Executive Vice President of Operations Kathy Murray discussed the loan pool and the recommendation, which Murray

then provided to Ashmore. Employee #1 stated that Sepulveda and Murray generally agreed with his rejection recommendations on loan pools. Ashmore overrode the recommendation of the underwriting department and caused Impac to buy the loan pool. Murray told Employee #1 that she went so far as to warn Ashmore that purchase of the loan pool could negatively affect Impac's employee retirement fund, which was invested in Impac stock, telling Ashmore that "this is our retirement we're talking about." However, Employee #1 indicated that companies providing bulk loan pools would threaten to pull their business from Impac if it didn't purchase bad loan pools. *Id.* ¶ 52.

226. Another former employee ("Employee #2") was employed by Impac from January 2005 through October 2007, and was in Wholesale Loan Set-up. Employee #2 was involved in the set up of Alt-A loans. He reported that many borrowers had credit scores that were low or did not have enough income. He also reported that whatever loan came in, the goal was to pass it on to the next step for approval which was underwriting. Employee #2 stated that the "system" was to pull credit scores to determine if the prospective borrower's reported credit score was high enough to qualify for the loan, a critical measure where documented income verification was absent in Alt-A loans. Employee #2 said that a low credit score, however, would not "kill" the loan. Rather, the loan would then go to the "deal desk," where deals were regularly made to get loans approved. *Id.* ¶ 56.

227. Indeed, Impac repeatedly inflated the reported incomes of applicants in order to approve loans for which the applicant would not otherwise qualify. The absence of documented income verification permitted Impac to engage in such conduct. For instance, Employee #2 recalled on one occasion that he and other co-workers were told in advance that a senior executive of Impac had a relative that was going to request a loan for at least $1

million, and that management told them to "make it work." Thus, if an applicant was not making enough money to qualify for a particular loan, Impac employees would make it look like the applicant was making more money than stated. The way to accomplish this was to enter the required information into the system. For example, if an applicant was making $700 per week, it would be increased to $1,000 per week. *Id.* ¶ 57.

228. Employee #2 stated that he was required to process at least 15 loans a day. *Id.* ¶ 58.

229. Another employee ("Employee #3") was employed by Impac from May 2004 through October 2007 in Quality Control, primarily for closed loans where money had already been disbursed. Employee #3 checked for and investigated fraud. Employee #3 stated that overstating the income of applicants made everyone happy, realtors, account executives, and Impac senior management. *Id.* ¶ 59.

230. Employee #3 stated that in processing 15 loans a day, there would not be enough time to check and follow the seller guides which were documented in great detail. He confirmed that management encouraged the selling of loans to customers who should have not been eligible for Alt-A loans. Employee #3 stated that this was accomplished because 90% of the loans done at Impac did not have documentation of income. *Id.* ¶ 60.

231. Another former employee ("Employee #4") was employed by Impac from June 1997 through July 2007 and worked in Underwriting inside the Conduit Division. After loans were received in the office and reviewed by underwriting, Employee #4 would work with brokers to resolve problems. *Id.* ¶ 61.

232. Employee #4 stated that Impac upper management tried to find a way to get loans done and remembers disagreements regarding the loan approval process on a regular basis.

He recalled a specific loan that was denied by underwriting and then approved by management, and loan guidelines, with the exception of Credit Scores, were routinely overridden by upper management. *Id.* ¶ 62.

233. Employee #4 also stated that underwriters could deny loans up to five hundred thousand dollars ($500,000), but recalled that all denied loans went to upper management, which included Gillespie and/or Assistant Vice President of Underwriting Bob Corridan. Employee #4 stated, "if there was a way to make the loan, then they (upper management) wanted to do it." He further stated that "management's theory was to approve loans," and restated that all loans denied by underwriters went to senior management. Employee #4 recalled a particular loan submitted by a broker who was a former IMH employee. This loan of seven hundred and fifty thousand dollars ($750,000) was denied by underwriting but reinstated by management. *Id.* ¶ 63.

234. Employee #4 believed that Impac was not flexible about FICO Credit Scores—the only hard, documented number they could not get around—but all other qualifications such as Payment History, Rent History, Employment History, Square Footage, Charge Offs, Collections, Judgments, Cash outs, Cash Reserves, Related Liens, and LTV Ratios were open to adjustment by Gillespie and Corridan in order to make the loan. This witness stated that bulk loans from lenders and brokers were "bad half the time." *Id.* ¶ 64.

235. Employee #4 believed that Impac failed because it did not abide by its stated underwriting standards. In response to questions about how Impac arrived at underwriting standards, Employee #4 stated that they were written by the Vice President of Guidelines, Lonna Smith. Smith obtained these guidelines from other Alt-A funders and "was told what to write by upper management." This witness remembers frequent conversations with Smith regarding

the guidelines in which Smith would say, in reference to the guidelines, "this is crazy," and that when management would relax the guidelines Smith tried to get management to tighten them up. Employee #4 stated that he "saw it all the time where we'd deny it [a loan] and they say, yeah, we could do this." *Id.* ¶ 65.

236. The FHFA as conservator for Fannie Mae and Freddie Mac has also sued Bear Stearns in connection with material misstatements and omissions in RMBS Offering Documents. *See* Am. Compl., *FHFA v. JP Morgan*, No. 11-6188 (S.D.N.Y. filed June 13, 2012).

237. The FHFA conducted a forensic review of loans for an RMBS that contained significant amounts of loans from Impac. This review consisted of an analysis of the loan origination file for each loan, including the documents submitted by the individual borrowers in support of their loan applications, as well as an analysis of information extrinsic to each loan file, such as the borrower's motor vehicle registration documentation with pertinent information indicating a borrower's assets or residence, and other information that was available at the time of the loan application, as well as the borrower's filings in bankruptcy proceedings and other sources of information. *Id.* ¶ 362.

238. The FHFA reviewed 535 loan files from the group of loans backing an RMBS it had purchased. Impac originated 13.56% of the loans in that group. The FHFA's review revealed that 98% of the loans (523 out of 535) were not underwritten in accordance with the underwriting guidelines or otherwise breached the representations contained in the transaction documents. Of the 523 loans that did not comply with the underwriting guidelines, none had sufficient compensating factors to warrant an exception. *Id.* ¶¶ 359, 367.

239. Of the 535 loans reviewed, 89 loans (or 25.2 percent) revealed an incorrect calculation of the borrower's debts which, when corrected, caused the debt-to-income ratio to

exceed the applicable underwriting guidelines for the product type. *Id.* ¶ 386.

11. Opteum Financial Service's and Southstar Funding, LLC's Systematic Disregard of Underwriting Standards

240. Opteum Financial Services, LLC ("Opteum") owns or owned approximately half of Southstar Funding, LLC ("Southstar"). Opteum is a retail originator and SouthStar generally is a wholesale originator.

241. Opteum originated or contributed a material portion of the loans in the mortgage pool underlying the SACO I Trust 2006-2 offering. Southstar originated or contributed a material portion of the loans in the mortgage pool underlying the Bear Stearns Second Lien Trust 2007-1, SACO I Trust 2006-2 and the SACO I Trust 2006-8 offerings. *See infra* Table 6.

242. Opteum's disregard of its underwriting guidelines came to light in a shareholder securities class action. *See* Am. Compl., *In re Opteum, Inc. Sec. Litig.*, No. 07-14278 (S.D. Fla. filed Oct. 12, 2009).

243. According to a confidential witness who was a retail loan officer at Opteum, it was unusual for a loan to be turned down. Even if an underwriter said "no," another underwriter or manager could usually be found who would say "yes." *Id.* ¶ 23.

244. Another confidential witness was a senior underwriter in the Conduit Division and was responsible for reviewing and approving mortgages that Opteum purchased from smaller mortgage firms. That confidential witness would deny applications if he discovered that borrowers lied about their job titles. However, management consistently overrode those denials. The confidential witness described the loans as "foreclosures looking for a place to happen." In one instance, Opteum purchased a $700,000 loan that was granted "literally [to] a maid and a cherry picker." The confidential witness's boss was told by Senior Vice President Mary Glass to "push all of the loans through … it did not matter how risky they were." *Id.* ¶ 24.

245. According to another confidential witness who was a loan officer, it became prevalent in the Northeast region to encourage and permit potential borrowers to misrepresent their adjusted gross income. Just before leaving the company in February 2007, the confidential witness learned that it was common for loan applicants to misrepresent their adjusted gross incomes by having their accountants prepare one tax return for the IRS and another for loan officers. *Id.* ¶ 25.

246. Another confidential witness was a capital markets analyst who worked in Secondary Marketing. That confidential witness recounted how a trader in the Structured Finance department said Opteum was a high-risk operation and that the trader was "going to get the hell out of there" as soon as possible. *Id.* ¶ 26.

247. The same confidential witness was responsible for reviewing loans for pooling. The confidential witness received "boxes, and boxes, and boxes" of loans from the Conduit Department. "[L]oan after loan" made no sense; stated income loans were given to people who "clearly could not afford them." "[G]ardeners and low wage employees" were getting loans for hundreds of thousands of dollars. *Id.* ¶ 28.

248. The same confidential witness stated that one of the reasons loan officers approved such "high risk" loans was that Opteum's CEO, Jeffrey Zimmer, made it "very clear" that if people did not meet their quota, they were out the door. Zimmer increased quotas, making it "very hard for these guys" to keep up. Further, the loan officers were primarily paid on commission; without commission pay, they made "basically no money." *Id.* ¶ 29.

249. The shareholder suit subsequently settled.

12. People's Choice Home Loan Inc.'s Systematic Disregard of Underwriting Standards

250. People's Choice Home Loan Inc. ("People's Choice") was a subprime mortgage

lender headquartered in Irvine, California. People's Choice filed for bankruptcy in March 2007, seeking Chapter 11 protection. People's Choice originated a material portion of the loans in the pool underlying the People's Choice Home Loan Securities Trust Series 2005-4 offering. *See infra* Table 6.

251. People's Choice was prominently featured in a March 22, 2009 program on Dateline NBC which highlighted the underhanded lending practices committed by various mortgage companies:

> James LaLiberte joined People's Choice in 2004 as the chief credit officer, overseeing the underwriting. Later, he was promoted to one of the top positions, chief operating officer, and was in charge of all operations and setting credit guidelines.
>
> He presented Dateline with a list of nearly 13,000 loans People's Choice funded in one year from April 2004 through March 2005, totaling more than $2 billion. Many of the loans, he said, were questionable; some possibly fraudulent.
>
> In an interview, he said that when he came on board, the company's reputation was "spotty at best," though he acknowledged the company was more conservative than many other subprime lenders.
>
> …
>
> Income discrepancies Dateline independently researched dozens of the stated income loans on the list LaLiberte presented and found many instances where incomes apparently were inflated.
>
> Examples on the People's Choice list included a registered massage therapist who claimed an income of $15,000 a month ($180,000 a year) and whom People's Choice loaned $640,000. According to the Web site Salary.com, which is often used by lenders, the median income in the zip code where the borrower lived is $3,799 a month, about one quarter of the amount the borrower claimed.
>
> A manicurist who borrowed $445,500 in 2004 claimed monthly income of $16,800, more than $200,000 a year. Later, she filed for bankruptcy and submitted papers to the court reporting her 2005 annual income as $27,092, meaning $2,258 a month (plus approximately $4,500 a year in child support).
>
> Another borrower in 2005 listed herself as director of development for a charity earning $15,500 a month ($186,000 a year) and obtained $655,000. But a review of the charity's publicly-filed tax returns shows that the director of development

that year was paid $69,808, or $5,817 a month. Surprisingly, that person has a different name from the borrower. A call to the charity elicited the information that the borrower indeed had worked there at the time the loan was issued, but held a position below director of development.

Former People's Choice COO LaLiberte said that he used the list of loans as a training tool. He put the spreadsheet up on a screen to highlight the types of loans the company should stop issuing.

"The initial reaction was laughter," LaLiberte said. "And then I said, 'Well, wait a minute here. Y'all think it's funny. I think it's funny, too, sort of. But these are loans that we funded. These are loans that we wired the money on.'"

He said that when he tried to implement more controls, he ran into resistance. "The chief appraiser once said, 'Fraud is what we do.' That's how we got where we are today.'" Another former executive told Dateline he was present when the comment was made and confirmed the accuracy of LaLiberte's account.

…

Eileen Loiacono was an underwriter at People's Choice from 2003 until September 2005. She said LaLiberte tried to do the right thing, but lost out to more powerful forces.

She and several other underwriters told Dateline that they felt pressured by sales staff to approve questionable applications. While their work as underwriters was supervised by a chief credit officer, they said that for administrative and basic personnel matters, they reported to sales managers.

One former People's Choice manager who spoke on condition of anonymity said, "That place was run by the sales people," some making $200,000 to $300,000 a month. That did create pressure on underwriters, the former manager said. "There was a lot of 'keep your mouth shut' going on, meaning you just didn't ask questions about things you knew were wrong."

Loiacono said that the problems and pressure were not restricted to stated income loans, but also involved full documentation applications for which borrowers submitted records to prove how much they made.

Falsified documents

She said she saw numerous instances of falsified W-2s, tax returns, and bank statements, including crude cut-and-paste jobs. "They would use someone else's tax returns, and then they'd put someone else's name in them," she said.

She said that she challenged about a third of all loan applications but was overruled by company executives the vast majority of the time.

> According to Loiacono and several other underwriters, in a few instances, sales people offered incentives to sign off on loans. Loaicono claimed the offers included breast implants, cars, and cash. She said she declined all such offers and reported them to the human resources department. She said nothing was done, as far as she knows.
>
> Loiacono said that some sales people engaged in intimidation, threatening, for instance, to slash the tires of an uncooperative underwriter. Another underwriter, who requested anonymity, told Dateline her car was scratched up with a key by a sales person she crossed.
>
> The environment became too uncomfortable, Loiacono said, so she quit in September 2005. "I wanted to be able to sleep at night without feeling like I was coming into a fight every day about something that I knew needed to be done right, and was not being done right."

Chris Hansen, '*If You Had a Pulse, We Gave You a Loan*,' NBC Dateline (Mar. 22, 2009) http://www.msnbc.msn.com/id/29827248/ns/dateline_nbc-the_hansen_files_with_chris_hansen/.

E. Loans That Did Not Comply with the Underwriting Guidelines Were Routinely Collateral for J.P. Morgan/Bear Stearns-Underwritten RMBS

252. During the FCIC investigation referenced above (*supra* at Section VII.D.1), Clayton Holdings provided evidence that J.P. Morgan and Bear Stearns securitized a significant number of loans that did not comply with the stated underwriting guidelines.

253. Clayton was the leading provider of due diligence services for RMBS offerings during the relevant time period. This gave Clayton "a unique inside view of the underwriting standards that originators were actually applying." FCIC Report at 166.

254. Banks routinely hired Clayton to inspect the mortgage loans that the banks securitized into RMBS. Clayton would determine whether the loans complied with the originators' stated underwriting guidelines, and prepare a report of its findings for the bank. *See* FCIC Testimony of Vicki Beal, Senior Vice President of Clayton Holdings (Sept. 23, 2010), *available at* http://fcic-static.law.stanford.edu/cdn_media/fcic-testimony/2010-0923-Beal.pdf.

255. From January 1, 2006 through June 30, 2007, Clayton reviewed 911,039 loans.

Only 54% of those met the originators' underwriting guidelines. Clayton's former President and CEO, Keith Johnson, testified that the "54% says there [was] a quality control issue in the [originators]." FCIC Report at 166; Audiotape of FCIC Interview with Keith Johnson, former President of Clayton ("Johnson FCIC Interview") (Sept. 2, 2010) ("Beal FCIC Testimony") ("Even if the guideline was bad, [the loans] didn't adhere to the guideline . . . . To me in hindsight, [the data] just said there was a . . . fundamental breakdown."), *available at* http://fcic.law.stanford.edu/interviews/view/220. Another 18% of the loans failed the underwriting guidelines but were deemed to have adequate compensating factors. That left a large number – 28% – that did not meet the underwriting guidelines and had no compensating factors. *See* All Clayton Trending Reports, 1st Quarter 2006 – 2nd Quarter 2007, at 1 (2007), *available at* http://fcic-static.law.stanford.edu/cdn_media/fcic-testimony/2010-0923-Clayton-All-Trending-Report.pdf ("All Clayton Trending Report").

256. Clayton confirmed that the RMBS sold by J.P. Morgan and Bear Stearns from the beginning of 2006 through the middle of 2007—which includes nearly all of the J.P. Morgan and Bear Stearns Certificates listed in Table 1 of this Complaint—contained a substantial number of loans that were not originated in conformity with underwriting guidelines. *See* All Clayton Trending Report at 2, 7.

257. As revealed during the FCIC investigation in 2010, Clayton routinely found large numbers of loans that were not properly originated under the applicable underwriting guidelines. Despite identifying these defectively originated loans, Clayton stated that they often were included into the RMBS that was being sold to investors. *See* FCIC Report at 166-67; All Clayton Trending Report at 1.

258. Clayton reviewed 72,379 loans for Bear Stearns/EMC. It found that 11,771

(16%) did not comply with the stated underwriting guidelines and did not have compensating factors. Bear Stearns/EMC waived the defects for 4,923 of the 11,771 (42%).

259. Clayton reviewed 23,668 loans for J.P. Morgan. It found that 6,325 (26.7%) did not comply with the stated underwriting guidelines and did not have compensating factors. J.P. Morgan waived the defects for 3,238 of the 6,325 (51%).

260. Clayton typically performed due diligence on a small sample of the loans that were being securitized into an RMBS offering. *See* FCIC Beal Testimony at 2. No due diligence was performed on the remaining loans. Of the small sample of loans that Clayton did review, approximately 14% (for J.P. Morgan) and approximately 7% (for Bear Stearns) of the loans securitized during the time period of first quarter of 2006 through the second quarter of 2007 did not comply with the underwriting guidelines and did not have compensating factors. Extrapolating Clayton's results shows that for the remaining loans that were not reviewed, Bear Stearns and J.P. Morgan securitized a significant number of loans that did not comply with the underwriting guidelines and did not have compensating factors. All Clayton Trending Reports at 2, 7.

F. Additional Evidence Confirms That Defective Loans Were Routinely Packaged into Bear Stearns and J.P. Morgan's RMBS.

261. Clayton officials offered an explanation for why so many defective loans were packaged into RMBS. When asked what caused the financial crisis, one pointed to the banks belief that they had no liability for loans' compliance with underwriting guidelines: "When it came to the underwriting [guidelines] . . . and [securitizers] could perhaps distribute that risk quickly, then that wasn't as high on their priorities." Johnson FCIC Interview.

262. A number of loan originators had an express policy of attempting to sell loans that had already been rejected. Because only a small percentage of the pools were reviewed by a due

diligence firm like Clayton (or its chief competitor, Bohan), there was a very strong likelihood that those defective loans would enter the pool on the second or third attempt. Clayton referred to this practice as the "three strikes, you're out rule." Transcript, FCIC Hearing, The Financial Crisis at the Community Level—Sacramento, CA at 178 (Sept. 23, 2010) (testimony of D. Keith Johnson, former President of Clayton), *available at* http://fcic-static.law.stanford.edu/cdn_media/fcic-testimony/2010-0923-transcript.pdf.

263. The FCIC Report also concluded that banks like J.P. Morgan that securitized loans were reluctant to review or reject loans in greater numbers because doing so would endanger their relationship with originators. FCIC Report at 166 ("[Clayton's former CEO] concluded that his clients often waived in loans to preserve their business relationship with the loan originator—a high number of rejections might lead the originator to sell the loans to a competitor."); PAUL MUOLO & MATTHEW PADILLA, CHAIN OF BLAME 228-29 (2010) ("There were two reasons the [Wall] Street firms reviewed only a small sample of the loans they were buying . . . . The most important reason was the relationship with the lender. 'The lower the sample you requested [of the lender], the more likely it was that you'd win the bid.' ").

VIII. THE OFFERING DOCUMENTS CONTAINED UNTRUE STATEMENTS OF MATERIAL FACT

264. The Offering Documents included material untrue statements or omitted facts necessary to make the statements made, in light of the circumstances under which they were made, not misleading.

265. For purposes of Section 11 liability, the prospectus supplements are part of and included in the registration statements of the offerings pursuant to 17 C.F.R. §§ 230.158, 230.430B (2008); *see also* Securities Offering Reform, 70 Fed. Reg. 44722-01, 44768-69 (Aug. 3, 2005).

266. Statements in the Offering Documents concerning the following subjects were material and untrue at the time they were made: (1) the loans adhered to the applicable underwriting guidelines, including that exceptions to those guidelines would only be granted when warranted by compensating factors; (2) the loans adhered to certain underwriting standards for reduced documentation programs; and (3) that appraisals were accurate, that loans had certain "loan-to-value" ratios individually and in the aggregate, that a certain percentage of the properties were owner-occupied, and that the borrowers had certain debt-to-income ("DTI") ratios.

267. The following table lists the originators that contributed loans to each RMBS, as identified in the Offering Documents. Under SEC's Regulation AB, the Offering Documents must disclose the originators that contributed more than 10% of the loans underlying the RMBS, and the Offering Documents must include underwriting guidelines for the originators that contributed more than 20% of the loans underlying the RMBS. *See* 17 C.F.R. § 229.1110 (2005). For the RMBS listed below, the Offering Documents included only those underwriting guidelines for the Originators that contributed more than 20% of the loans to the RMBS.

Table 6
Originators Supplying Loans for Each RMBS at Issue

CUSIP	Issuing Entity	Tranche	Originator(s)
07386HXN6	Bear Stearns ALT-A Trust 2005-9	I-1A-1	Countrywide Home Loans (12.01% Group 1) EMC Mortgage Corp. (75.81% Group 1)
07401WAA7	Bear Stearns Second Lien Trust 2007-1	I-A	GreenPoint Mortgage Funding, Inc. (47.21% Group 1) PMC Bancorp (15.67% Group 1) Just Mortgage INC. (12.74% Group 1) SouthStar Funding,(11.16% Group 1)
07401WAP4	Bear Stearns Second Lien Trust 2007-1, Groups II and III	2-A	Bear Stearns Residential Mortgage (31.35% Group 2)
16165WAA4 16165WAB2	ChaseFlex Trust Series 2007-2	A-1 A-2	JPMorgan Chase Bank, N.A. (100%)

CUSIP	Issuing Entity	Tranche	Originator(s)
16165AAE4 16165AAD6	ChaseFlex Trust Series 2007-3	II-A2 II-A1	JPMorgan Chase Bank, N.A. (100%)
16165YAB8	ChaseFlex Trust Series 2007-M1	1-A2	JPMorgan Chase Bank, N.A. (100%)
361856ER4	GMACM Home Equity Loan Trust 2006-HE1	A	GMAC Mortgage Corporation (41.75%) GMAC Bank (58.25%)
38012EAC9	GMACM Home Equity Loan Trust 2006-HE5	II-A-2	GMAC Mortgage, LLC (14%) GMAC Bank (86%)
45254NNB9	Impac CMB Trust Series 2005-2	1-M-1	Impac Mortgage Holdings, Inc. (100%)
45254NQG5	Impac CMB Trust Series 2005-6	2-A-1	Impac Mortgage Holdings, Inc. (100%)
46628GAE9	J.P. Morgan Alternative Loan Trust 2006-A2	1-A-5	GreenPoint Mortgage Funding, Inc. (24.56% Group 1) Chase Home Finance LLC or JPMorgan Chase Bank, NA (21.97% Group 1) Countrywide Home Loans (15.45% Group 1) M&T Mortgage Corporation (14.05% Group 1) PHH Mortgage Corporation (11.57% Group 1)
466287AA7 466287AE9	J.P. Morgan Alternative Loan Trust 2007-A1	1-A-1-A 1-A-5	The Chase Originators (41.89% Group 1) GreenPoint Mortgage Funding, Inc. (38.9% Group 1) Countrywide Home Loans, Inc. (12.82% Group 1)
466278AE8	J.P. Morgan Alternative Loan Trust 2007-A2	1-2-A3	The Chase Originators (57.87% Group 1) American Home Mortgage Corp. (20.02% Group 1) GreenPoint Mortgage Funding (11.75% Group 1)
466275AA2	J.P. Morgan Alternative Loan Trust 2007-S1	A-1	Chase Home Finance LLC and JPMorgan Chase Bank (71.90%) American Home Mortgage Corporation (15.93%)
71085PDD2	People’s Choice Home Loan Securities Trust Series 2005-4	1A2	People's Choice Home Loan, Inc. (100%)
785778PF2 785778PG0	SACO I Trust 2006-2	I-A II-A	American Home Mortgage Investment Corp. (28.83% Group 1) Southstar Funding, LLC and Opteum Financial Services, LLC (18.39% Group 1) Impac Mortgage Corporation (13.8% Group 1) Suntrust Mortgage Corporation (15.01% Group 2) Waterfield Mortgage Corporation (12.97% Group 2)

CUSIP	Issuing Entity	Tranche	Originator(s)
78577PAA1	SACO I Trust 2006-7	A	EMC Mortgage Corporation (70.53%)
785813AA4	SACO I Trust 2006-8	A	American Home Mortgage Corp. (31.07%) SouthStar Funding, LLC (19.79%) Just Mortgage Inc. (16.15%) Metrocities Mortgage, LLC (11.8%)
78577NAG3	SACO I Trust 2006-12	II-A	GreenPoint Mortgage Funding, Inc. (100%)
784208AD2	SG Mortgage Securities Trust 2006-FRE2	A-2C	Fremont Investment and Loan (100%)
86359LSM2	Structured Asset Mortgage Investments II Trust 2006-AR2	A-1	Countrywide Home Loans, Inc. (100%)

268. Examples of material untrue statements and/or omissions of fact in the Offering Documents of the RMBS listed above follow.

A. Untrue Statements Concerning Adherence to Underwriting Guidelines

269. The Bear Stearns ALT-A Trust 2005-9 Prospectus Supplement provided the following description of Countrywide's underwriting guidelines:

> As part of its evaluation of potential borrowers, Countrywide Home Loans generally requires a description of income. If required by its underwriting guidelines, Countrywide Home Loans obtains employment verification providing current and historical income information and/or a telephonic employment confirmation. Such employment verification may be obtained, either through analysis of the prospective borrower's recent pay stub and/or W-2 forms for the most recent two years, relevant portions of the most recent two years' tax returns, or from the prospective borrower's employer, wherein the employer reports the length of employment and current salary with that organization. Self-employed prospective borrowers generally are required to submit relevant portions of their federal tax returns for the past two years.
>
> In assessing a prospective borrower's creditworthiness, Countrywide Home Loans may use FICO Credit Scores. "FICO Credit Scores" are statistical credit scores designed to assess a borrower's creditworthiness and likelihood to default on a consumer obligation over a two-year period based on a borrower's credit history. FICO Credit Scores were not developed to predict the likelihood of default on mortgage loans and, accordingly, may not be indicative of the ability of a borrower to repay its mortgage loan. FICO Credit Scores range from

approximately 250 to approximately 900, with higher scores indicating an individual with a more favorable credit history compared to an individual with a lower score. Under Countrywide Home Loans' underwriting guidelines, borrowers possessing higher FICO Credit Scores, which indicate a more favorable credit history and who give Countrywide Home Loans the right to obtain the tax returns they filed for the preceding two years, may be eligible for Countrywide Home Loans' processing program (the "Preferred Processing Program").

> Periodically the data used by Countrywide Home Loans to complete the underwriting analysis may be obtained by a third party, particularly for mortgage loans originated through a loan correspondent or mortgage broker. In those instances, the initial determination as to whether a mortgage loan complies with Countrywide Home Loans' underwriting guidelines may be made by an independent company hired to perform underwriting services on behalf of Countrywide Home Loans, the loan correspondent or mortgage broker. In addition, Countrywide Home Loans may acquire mortgage loans from approved correspondent lenders under a program pursuant to which Countrywide Home Loans delegates to the correspondent the obligation to underwrite the mortgage loans to Countrywide Home Loans' standards. Under these circumstances, the underwriting of a mortgage loan may not have been reviewed by Countrywide Home Loans before acquisition of the mortgage loan and the correspondent represents that Countrywide Home Loans' underwriting standards have been met. After purchasing mortgage loans under those circumstances, Countrywide Home Loans conducts a quality control review of a sample of the mortgage loans. The number of loans reviewed in the quality control process varies based on a variety of factors, including Countrywide Home Loans' prior experience with the correspondent lender and the results of the quality control review process itself.

> Countrywide Home Loans' underwriting standards are applied by or on behalf of Countrywide Home Loans to evaluate the prospective borrower's credit standing and repayment ability and the value and adequacy of the mortgaged property as collateral. Under those standards, a prospective borrower must generally demonstrate that the ratio of the borrower's monthly housing expenses (including principal and interest on the proposed mortgage loan and, as applicable, the related monthly portion of property taxes, hazard insurance and mortgage insurance) to the borrower's monthly gross income and the ratio of total monthly debt to the monthly gross income (the "debt-to-income" ratios) are within acceptable limits.

Bear Stearns ALT-A Trust 2005-9 Prospectus Supplement at S-47; Structured Asset Mortgage Investments II Trust 2006-AR2 Prospectus Supplement at S-38-39.

270. The Bear Stearns ALT-A Trust 2005-9 Prospectus Supplement stated:

> Exceptions to Countrywide Home Loan's underwriting guidelines may be made if

> compensating factors are demonstrated by a prospective borrower.

Bear Stearns ALT-A Trust 2005-9 Prospectus Supplement at S-48; Structured Asset Mortgage Investments II Trust 2006-AR2 Prospectus Supplement at S-39.

271. The Bear Stearns ALT-A Trust 2005-9 Prospectus Supplement stated:

> Approximately 52.90% of the mortgage loans in the aggregate have been acquired by EMC from various sellers and were originated generally in accordance with the following underwriting guidelines established by EMC.

Bear Stearns ALT-A Trust 2005-9 Prospectus Supplement at S-52.

272. The Bear Stearns ALT-A Trust 2005-9 Prospectus Supplement stated:

> The mortgage loans originated by EMC, or EMC mortgage loans, are "conventional non-conforming mortgage loans" (i.e., loans that are not insured by the Federal Housing Authority, or FHA, or partially guaranteed by the Veterans Administration or which do not qualify for sale to Fannie Mae or Freddie Mac) and are secured by first liens on one-to four-family residential properties. These loans typically differ from those underwritten to the guidelines established by Fannie Mae and Freddie Mac primarily with respect to the original principal balances, loan-to-value ratios, borrower income, required documentation, interest rates, borrower occupancy of the mortgaged property, property types and/or mortgage loans with loan-to-value ratios over 80% that do not have primary mortgage insurance. The EMC mortgage loans were originated or purchased by EMC and were generally underwritten in accordance with the standards described herein.
>
> Such underwriting standards are applied to evaluate the prospective borrower's credit standing and repayment ability and the value and adequacy of the mortgaged property as collateral. These standards are applied in accordance with the applicable federal and state laws and regulations. Exceptions to the underwriting standards are permitted where compensating factors are present.
>
> Generally, each mortgagor will have been required to complete an application designed to provide to the lender pertinent credit information concerning the mortgagor. The mortgagor will have given information with respect to its assets, liabilities, income (except as described below), credit history, employment history and personal information, and will have furnished the lender with authorization to obtain a credit report which summarizes the mortgagor's credit history. In the case of investment properties and two- to four-unit dwellings, income derived from the mortgaged property may have been considered for underwriting purposes, in addition to the income of the mortgagor from other sources. With respect to second homes or vacation properties, no income derived from the

property will have been considered for underwriting purposes.

Bear Stearns ALT-A Trust 2005-9 Prospectus Supplement at S-53.

273. The Bear Stearns Second Lien Trust 2007-1 Prospectus Supplement stated: "The mortgage loans originated by BSRM were originated generally in accordance with guidelines (the "BSRM Underwriting Guidelines")…" Bear Stearns Second Lien Trust 2007-1 Group II and III Prospectus Supplement at S-43.

274. The Bear Stearns Second Lien Trust 2007-1 Prospectus Supplement stated: "The BSRM Underwriting Guidelines are intended to make sure that (i) the loan terms relate to the borrower's ability to repay and (ii) the value and marketability of the property are acceptable." Bear Stearns Second Lien Trust 2007-1 Group II and III Prospectus Supplement at S-43.

275. The Bear Stearns Second Lien Trust 2007-1 Prospectus Supplement stated:

> During the underwriting process, BSRM reviews and verifies the loan applicant's sources of income (except under the Stated Documentation type, under which programs such information may not be independently verified), calculates the amount of income from all such sources indicated on the loan application, reviews the credit history of the applicant, calculates the debt-to-income ratio to determine the applicant's ability to repay the loan, and reviews the mortgaged property for compliance with the BSRM Underwriting Guidelines.

Bear Stearns Second Lien Trust 2007-1 Group II and III Prospectus Supplement at S-44.

276. The Bear Stearns Second Lien Trust 2007-1 Prospectus Supplement stated:

> Exceptions to the BSRM Underwriting Guidelines are considered with reasonable compensating factors on a case-by-case basis and at the sole discretion of senior management. When exception loans are reviewed, all loan elements are examined as a whole to determine the level of risk associated with approving the loan, including appraisal, credit report, employment, compensating factors and borrower's willingness and ability to repay the loan. Compensating factors may include, but are not limited to, validated or sourced/seasoned liquid reserves in excess of the program requirements, borrower's demonstrated ability to accumulate savings or devote a greater portion of income to housing expense and borrower's potential for increased earnings based on education, job training, etc. Loan characteristics such as refinance transactions where borrowers are reducing

mortgage payments and lowering debt ratios may become compensating factors as well.

Bear Stearns Second Lien Trust 2007-1 Group II and III Prospectus Supplement at S-44.

277. The Bear Stearns Second Lien Trust 2007-1 Prospectus Supplement stated:

> The underwriting guidelines are primarily intended to assess the borrower's ability to repay the mortgage loan, to assess the value of the mortgaged property and to evaluate the adequacy of the mortgaged property as collateral for the mortgage loan.
>
> . . .
>
> On a case-by-case basis, exceptions to the underwriting guidelines are made where compensating factors exist. It is expected that a substantial portion of the mortgage loans in the mortgage pool that were originated by the originators will represent these exceptions.
>
> . . .
>
> Mortgaged properties that are to secure mortgage loans generally are appraised by qualified independent appraisers. These appraisers inspect and appraise the subject property and verify that the property is in acceptable condition. Following each appraisal, the appraiser prepares a report that includes a market value analysis based on recent sales of comparable homes in the area and, when deemed appropriate, market rent analysis based on the rental of comparable homes in the area. All appraisals are required to conform to the Uniform Standard of Professional Appraisal Practice adopted by the Appraisal Standards Board of the Appraisal Foundation and are generally on forms acceptable to Fannie Mae and Freddie Mac.
>
> . . . .
>
> The mortgage loans were originated consistent with and generally conform to the underwriting guidelines' full/alternative documentation, stated income documentation and limited documentation residential loan programs. Under each of the programs, the originator reviews the applicant's source of income, calculates the amount of income from sources indicated on the loan application or similar documentation, reviews the credit history of the applicant, calculates the debt service to income ratio, if required, to determine the applicant's ability to repay the loan, and reviews the appraisal.

Bear Stearns Second Lien Trust 2007-1 Group II and Group III Prospectus Supplement at S-41-42.

278. The Bear Stearns Second Lien Trust 2007-1 Prospectus Supplement states:

> Generally, the GreenPoint underwriting guidelines are applied to evaluate the prospective borrower's credit standing and repayment ability and the value and

> adequacy of the mortgaged property as collateral. Exceptions to the guidelines are permitted where compensating factors are present. The GreenPoint underwriting guidelines are generally not as strict as Fannie Mae or Freddie Mac guidelines. GreenPoint's underwriting guidelines are applied in accordance with applicable federal and state laws and regulations.

Bear Stearns Second Lien Trust Group I Prospectus Supplement at the "GreenPoint Underwriting Guidelines" section; *see also* SACO I Trust 2006-12 Prospectus Supplement at S-35.

279. The Bear Stearns Second Lien Trust 2007-1 Prospectus Supplement states:

> As part of its evaluation of potential borrowers, GreenPoint generally requires a description of the borrower's income. If required by its underwriting guidelines, GreenPoint obtains employment verification providing current and historical income information and/or a telephonic employment confirmation. Employment verification may be obtained through analysis of the prospective borrower's recent pay stubs and/or W-2 forms for the most recent two years or relevant portions of the borrower's most recent two years' tax returns, or from the prospective borrower's employer, wherein the employer reports the borrower's length of employment and current salary with that organization. Self-employed prospective borrowers generally are required to submit relevant portions of their federal tax returns for the past two years.

Bear Stearns Second Lien Trust 2007-1 Group I Prospectus Supplement at the "GreenPoint Underwriting Guidelines" section; *see also* SACO I Trust 2006-12 Prospectus Supplement at S-35.

280. The Bear Stearns Second Lien Trust 2007-1 Prospectus Supplement states:

> In determining whether a prospective borrower has sufficient monthly income available to meet the borrower's monthly obligation on the proposed mortgage loan and monthly housing expenses and other financial obligations, GreenPoint generally considers the ratio of those amounts to the proposed borrower's monthly gross income. These ratios vary depending on a number of underwriting criteria, including loan-to-value ratios ("LTV"), and are determined on a loan-by-loan basis. The ratios generally are limited to 40% but may be extended to 50% with adequate compensating factors, such as disposable income, reserves, higher FICO credit score, or lower LTV's. Each mortgage loan has a required amount of reserves, with the minimum being three months of principal, interest, taxes and insurance for full documentation loans. Depending on the LTV and occupancy types, these reserve requirements may be increased to compensate for the

additional risk.

Bear Stearns Second Lien Trust 2007-1 Group I Prospectus Supplement at the "GreenPoint Underwriting Guidelines" section.

281. The ChaseFlex Trust Series 2007-2 Prospectus Supplement dated Apr. 25, 2007, stated at S-56: "The Mortgage Loans were originated by or for JPMorgan or its affiliates generally using underwriting guidelines originally established by Chase Home Finance LLC as set forth below." *See also* ChaseFlex Trust Series 2007-3 Prospectus Supplement at S-118; ChaseFlex Trust Series 2007-M1 Prospectus Supplement at S-95.

282. The ChaseFlex Trust Series 2007-2 Prospectus Supplement stated:

> The Mortgage Loans were not originated in a manner generally consistent with Fannie Mae or Freddie Mac published underwriting guidelines and were originated using underwriting policies (the "ALTERNATIVE A UNDERWRITING POLICIES") that are different from and, in certain respects, less stringent than the general underwriting policies of JPMorgan and its affiliates during the period of origination of the Mortgage Loans. For example, such Mortgage Loans include mortgage loans secured by non-owner occupied properties, mortgage loans made to borrowers whose income is not required to be provided or verified, mortgage loans with higher loan-to-value ratios or mortgage loans made to borrowers whose ratios of debt service on the mortgage loans to income and total debt service on borrowings to income are higher than for such other programs, or mortgage loans made to international borrowers. Other examples include mortgage loans secured by shares in cooperative housing corporations, "condotels," smaller or larger or otherwise unusual parcels of land and mortgage loans with higher loan-to-value ratios than in such other programs. The inclusion of such Mortgage Loans may present certain risks that are not present in such other programs.
>
> Under the Alternative A Underwriting Policies, the borrower is required to complete an application designed to provide pertinent credit information concerning the borrower. As part of the description of the borrower's financial condition, each borrower is required to furnish information (which may have been supplied solely in such application) with respect to its assets, liabilities, income (except as described below), credit history and employment history, and to furnish an authorization to apply for a credit report which summarizes the borrower's credit history with local merchants and lenders and any record of bankruptcy. The borrower may also be required to authorize verifications of deposits at financial institutions where the borrower had demand or savings accounts. In the case of

> non-owner occupied properties, income derived from the mortgaged property may be considered for underwriting purposes. With respect to mortgaged property consisting of a vacation or second home, generally no income derived from the property is considered for underwriting purposes.

ChaseFlex Trust Series 2007-2 Prospectus Supplement at S-56. *See also* ChaseFlex Trust Series 2007-3 Prospectus Supplement at S-118; ChaseFlex Trust Series 2007-M1 Prospectus Supplement at S-95.

283. The ChaseFlex Trust Series 2007-2 Prospectus Supplement stated:

> From time to time, exceptions and/or variances to Alternative A Underwriting Policies may be made. Such exceptions and/or variances may be made only if specifically approved on a loan-by-loan basis by certain credit personnel who have the authority to make such exceptions and/or variances. Exceptions and/or variances may be made only after careful consideration of certain mitigating factors such as borrower capacity, liquidity, employment and residential stability and local economic conditions.

ChaseFlex Trust Series 2007-2 Prospectus Supplement at S-57. *See also* ChaseFlex Trust Series 2007-3 Prospectus Supplement at S-119; ChaseFlex Trust Series 2007-M1 Prospectus Supplement at S-96.

284. The SG Mortgage Securities Trust 2006-FRE2 Prospectus Supplement represented:

> Fremont's underwriting guidelines are primarily intended to assess the ability and willingness of the borrower to repay the debt and to evaluate the adequacy of the mortgaged property as collateral for the mortgage loan. The Scored Programs assess the risk of default by using Credit Scores obtained from third party credit repositories along with, but not limited to, past mortgage payment history, seasoning on bankruptcy and/or foreclosure and loan-to-value ratios as an aid to, not a substitute for, the underwriter's judgment. All of the mortgage loans in the mortgage pool were underwritten with a view toward the resale of the mortgage loans in the secondary mortgage market.

SG Mortgage Securities Trust 2006-FRE2 Prospectus Supplement at S-35.

285. The SG Mortgage Securities Trust 2006-FRE2 Prospectus Supplement also stated:

> Fremont Investment & Loan conducts a number of quality control procedures, including a post-funding compliance audit as well as a full re-underwriting of a random selection of loans to assure asset quality.

SG Mortgage Securities Trust 2006-FRE2 Prospectus Supplement at S-35.

286. The GMACM Home Equity Loan Trust 2006-HE1 Prospectus Supplement dated Mar. 27, 2006 stated at S-39: "All of the HELOCs were underwritten generally in accordance with GMAC Mortgage Corporation's underwriting standards." *See also* GMACM Home Equity Loan Trust 2006-HE5 Prospectus Supplement at S-34.

287. The GMACM Home Equity Loan Trust 2006-HE1 Prospectus Supplement stated:

> The underwriting standards set forth in the GMAC Mortgage Corporation underwriting guidelines with respect to HELOCs originated under the GMAC Mortgage Corporation Home Equity Program may be varied in appropriate cases. There can be no assurance that every HELOC was originated in conformity with the applicable underwriting standards in all material respects, or that the quality or performance of the HELOCs will be equivalent under all circumstances.
>
> GMAC Mortgage Corporation's underwriting standards include a set of specific criteria pursuant to which the underwriting evaluation is made. However, the application of those underwriting standards does not imply that each specific criterion was satisfied individually. Rather, a HELOC will be considered to be originated in accordance with a given set of underwriting standards if, based on an overall qualitative evaluation, the loan is in substantial compliance with those underwriting standards. For example, a HELOC may be considered to comply with a set of underwriting standards, even if one or more specific criteria included in the underwriting standards were not satisfied, if other factors compensated for the criteria that were not satisfied or if the HELOC is considered to be in substantial compliance with the underwriting standards.
>
> Conformity with the applicable underwriting standards will vary depending on a number of factors relating to the specific HELOC, including the principal amount or credit limit, the CLTV Ratio, the loan type or loan program, and the applicable credit score of the related borrower used in connection with the origination of the HELOC, as determined based on a credit scoring model acceptable to GMAC Mortgage Corporation. Credit scores are not used to deny loans. However, credit scores are used as a "tool" to analyze a borrower's credit. Generally, credit scoring models provide a means for evaluating the information about a prospective borrower that is available from a credit reporting agency. The underwriting criteria applicable to any program under which the HELOCs may be originated may provide that qualification for the loan, the level of review of the

> loan's documentation, or the availability of certain loan features, such as maximum loan amount, maximum CLTV Ratio, property type and use, and documentation level, may depend on the borrower's credit score.

GMACM Home Equity Loan Trust 2006-HE1 Prospectus Supplement at S-40-41. *See also* GMACM Home Equity Loan Trust 2006-HE5 Prospectus Supplement at S-36-37.

288. The SACO I Trust 2006-2 Prospectus Supplement represented:

> American Home's underwriting philosophy is to weigh all risk factors inherent in the loan file, giving consideration to the individual transaction, borrower profile, the level of documentation provided and the property used to collateralize the debt. These standards are applied in accordance with applicable federal and state laws and regulations. Exceptions to the underwriting standards may be permitted where compensating factors are present. . . . Because each loan is different, American Home expects and encourages underwriters to use professional judgment based on their experience in making a lending decision.

SACO I Trust 2006-2 Prospectus Supplement at S-34; SACO I Trust 2006-8 Prospectus Supplement at S-26.

289. The SACO I Trust 2006-2 Prospectus Supplement represented:

> American Home underwrites a borrower's creditworthiness based solely on information that American Home believes is indicative of the applicant's willingness and ability to pay the debt they would be incurring.

SACO I Trust 2006-2 Prospectus Supplement at S-34; SACO I Trust 2006-8 Prospectus Supplement at S-26.

290. The SACO I Trust 2006-2 Prospectus Supplement represented:

> American Home realizes that there may be some acceptable quality loans that fall outside published guidelines and encourages "common sense" underwriting. Because a multitude of factors are involved in a loan transaction, no set of guidelines can contemplate every potential situation. Therefore, each case is weighed individually on its own merits and exceptions to American Home's underwriting guidelines are allowed if sufficient compensating factors exist to offset any additional risk due to the exception.

SACO I Trust 2006-2 Prospectus Supplement at S-36; SACO I Trust 2006-2 Prospectus Supplement at S-34; SACO I Trust 2006-8 Prospectus Supplement at S-27.

291. The Impac CMB Trust Series 2005-2 Prospectus Supplement stated:

> The underwriting guidelines utilized in the Progressive Series Program, as developed by the Seller, are intended to assess the borrower's ability and willingness to repay the mortgage loan obligation and to assess the adequacy of the mortgaged property as collateral for the mortgage loan. The Progressive Series Program is designed to meet the needs of borrowers with excellent credit, as well as those whose credit has been adversely affected.

Impac CMB Trust Series 2005-2 Prospectus Supplement at S-57. *See also* Impac CMB Trust Series 2005-6 Prospectus Supplement at the "Underwriting Standards" section.

292. The Impac CMB Trust Series 2005-2 Prospectus Supplement stated:

> The philosophy of the Progressive Series Program is that no single borrower characteristic should automatically determine whether an application for a mortgage loan should be approved or disapproved. Lending decisions are based on a risk analysis assessment after the review of the entire mortgage loan file.

Impac CMB Trust Series 2005-2 Prospectus Supplement at S-57. *See also* Impac CMB Trust Series 2005-6 Prospectus Supplement at the "Underwriting Standards" section.

293. The Impac CMB Trust Series 2005-2 Prospectus Supplement also stated:

> Under the Progressive Series Program, the Seller underwrites one- to four-family mortgage loans with loan-to-value ratios at origination of up to 100%, depending on, among other things, a borrower's credit history, repayment ability and debt service-to-income ratio, as well as the type and use of the mortgaged property.

Impac CMB Trust Series 2005-2 Prospectus Supplement at S-58. *See also* Impac CMB Trust Series 2005-6 Prospectus Supplement at the "Underwriting Standards" section.

294. On the issue of the Chase Originators' guidelines, the J.P. Morgan Alternative Loan Trust 2007-A2 Prospectus Supplement states:

> The Chase Originators have represented to the Seller that, except for approximately 74.27% of these Chase Originator Mortgage Loans, such Chase Originator Mortgage Loans were originated generally in accordance with such policies. The depositor believes that such Mortgage Loans subject to the exception in the previous sentence were originated generally in accordance with the underwriting guidelines set forth under the heading "The Originators—General Underwriting Guidelines" in this prospectus supplement. References to

> Mortgage Loans in this section refer to the Chase Originator Mortgage Loans originated or acquired by the Chase Originators in accordance with the underwriting guidelines described below.

J.P. Morgan Alternative Loan Trust 2007-A2 Prospectus Supplement at S-40-41; J.P. Morgan Alternative Loan Trust 2007-A1 Prospectus Supplement at S-37-38; J.P. Morgan Alternative Loan Trust 2007-S1 Prospectus Supplement at "The Originators"; J.P. Morgan Alternative Loan Trust 2006-A2 Prospectus Supplement at S-37; J.P. Morgan Alternative Loan Trust 2007-A1 Free Writing Prospectus, Feb. 9, 2007 at "The Chase Originators"; J.P. Morgan Alternative Loan Trust 2006-A2 Free Writing Prospectus, April 5, 2006, at "The Chase Originators."

295. With respect to exceptions to the Chase Originators' guidelines, the J.P. Morgan Alternative Loan Trust 2007-A2 Prospectus Supplement stated:

> From time to time, exceptions and/or variances to Alternative A Underwriting Policies may be made. Such exceptions and/or variances may be made only if specifically approved on a loan-by-loan basis by certain credit personnel who have the authority to make such exceptions and/or variances. Exceptions and/or variances may be made only after careful consideration of certain mitigating factors such as borrower capacity, liquidity, employment and residential stability and local economic conditions.

J.P. Morgan Alternative Loan Trust 2007-A2 Prospectus Supplement, May 31, 2007, at S-42; J.P. Morgan Alternative Loan Trust 2007-A1 Prospectus Supplement at S-39; J.P. Morgan Alternative Loan Trust 2007-S1 Prospectus Supplement at "The Originators" section; J.P. Morgan Alternative Loan Trust 2006-A2 Prospectus Supplement at S-38; *see* J.P. Morgan Alternative Loan Trust 2007-S1 Free Writing Prospectus, May 10, 2007, at "The Chase Originators"; J.P. Morgan Alternative Loan Trust 2007-A1 Free Writing Prospectus, Feb. 9, 2007 at "The Chase Originators"; J.P. Morgan Alternative Loan Trust 2006-A2 Free Writing Prospectus, Apr. 5, 2006, at "The Chase Originators."

296. The J.P. Morgan Alternative Loan Trust 2007-A2 Prospectus Supplement

represented the following concerning American Home's underwriting guidelines:

> The following information generally describes American Home's underwriting guidelines with respect to mortgage loans originated pursuant to its "conforming" or "prime" underwriting guidelines and its Alt-A underwriting guidelines.

J.P. Morgan Alternative Loan Trust 2007-A2 Prospectus Supplement at S-43; *see also* J.P. Morgan Alternative Loan Trust 2007-A2 Free Writing Prospectus, May 23, 2007, at "American Home Mortgage Corp".

297. The J.P. Morgan Alternative Loan Trust 2007-A2 Prospectus Supplement represented J.P. Morgan's "general underwriting standards" to require:

> Underwriting standards are applied by or on behalf of a lender to evaluate a borrower's credit standing and repayment ability, and the value and adequacy of the related Mortgaged Property as collateral. In general, a prospective borrower applying for a loan is required to fill out a detailed application designed to provide to the underwriting officer pertinent credit information. As part of the description of the borrower's financial condition, the borrower generally is required to provide a current list of assets and liabilities and a statement of income and expenses, as well as an authorization to apply for a credit report which summarizes the borrower's credit history with local merchants and lenders and any record of bankruptcy. In most cases, an employment verification is obtained from an independent source (typically the borrower's employer), which verification repots, among other things, the length of employment with that organization, the current salary, and whether it is expected that the borrower will continue such employment in the future. If a prospective borrower is self employed, the borrower may be required to submit copies of signed tax returns.

J.P. Morgan Alternative Loan Trust 2007-A2 Prospectus Supplement at S-39; J.P. Morgan Alternative Loan Trust 2007-A1 Prospectus Supplement at S-35-36; J.P. Morgan Alternative Loan Trust 2006-A2 Prospectus Supplement at S-29-30; *see* J.P. Morgan Alternative Loan Trust 2007-A2 Registration Statement, Mar. 27, 2006, at "Underwriting Standards"; J.P. Morgan Alternative Loan Trust 2007-A1 Registration Statement, Dec. 7, 2005, at "Underwriting Standards"; J.P. Morgan Alternative Loan Trust 2006-A2 Registration Statement, Dec. 7, 2005, at "Underwriting Standards."

298. On GreenPoint's underwriting guidelines, the J.P. Morgan Alternative Loan Trust 2007-A1 Prospectus Supplement stated:

> Generally, the GreenPoint underwriting guidelines are applied to evaluate the prospective borrower's credit standing and repayment ability and the value and adequacy of the mortgaged property as collateral.

J.P. Morgan Alternative Loan Trust 2007-A1 Prospectus Supplement at S-40; J.P. Morgan Alternative Loan Trust 2006-A2 Prospectus Supplement at S-39; *see* J.P. Morgan Alternative Loan Trust 2007-A1 Free Writing Prospectus, Feb. 9, 2007, at "GreenPoint Mortgage Funding, Inc."; J.P. Morgan Alternative Loan Trust 2006-A2 Free Writing Prospectus, Apr. 5, 2006, at "GreenPoint Mortgage Funding, Inc."

299. The J.P. Morgan Alternative Loan Trust 2007-A1 Prospectus Supplement continued:

> Periodically, the data used by GreenPoint to underwrite mortgage loans may be obtained by an approved loan correspondent. In those instances, the initial determination as to whether a mortgage loan complies with GreenPoint's underwriting guidelines may be made by such loan correspondent. In addition, GreenPoint may acquire mortgage loans from approved correspondent lenders under a program pursuant to which GreenPoint delegates to the correspondent the obligation to underwrite the mortgage loans to GreenPoint's standards. Under these circumstances, the underwriting of a mortgage loan may not have been reviewed by GreenPoint before acquisition of the mortgage loan, and the correspondent represents to GreenPoint that its underwriting standards have been met. After purchasing mortgage loans under those circumstances, GreenPoint conducts a quality control review of a sample of the mortgage loans. The number of loans reviewed in the quality control process varies based on a variety of factors, including GreenPoint's prior experience with the correspondent lender and the results of the quality control review process itself.

J.P. Morgan Alternative Loan Trust 2007-A1 Prospectus Supplement at S-41; J.P. Morgan Alternative Loan Trust 2006-A2 Prospectus Supplement, dated April 24, 2006, at S-40; *see* J.P. Morgan Alternative Loan Trust 2007-A1 Free Writing Prospectus, Feb. 9, 2007, at "GreenPoint Mortgage Funding, Inc."; J.P. Morgan Alternative Loan Trust 2006-A2 Free Writing Prospectus, Apr. 5, 2006, at "GreenPoint Mortgage Funding, Inc."; SACO I Trust 2006-12 Prospectus Supplement at S-36.

300. On the issue of exceptions to GreenPoint's guidelines, the J.P. Morgan Alternative Loan Trust 2007-A1 Prospectus Supplement represented:

> Exceptions to the guidelines are permitted where compensating factors are present. The GreenPoint underwriting guidelines are generally not as strict as Fannie Mae or Freddie Mac guidelines. GreenPoint's underwriting guidelines are applied in accordance with applicable state laws and regulations.

J.P. Morgan Alternative Loan Trust 2007-A1 Prospectus Supplement at S-40; J.P. Morgan Alternative Loan Trust 2006-A2 Prospectus Supplement at S-39; *see* J.P. Morgan Alternative Loan Trust 2007-A1 Free Writing Prospectus, Feb. 9, 2007, at "GreenPoint Mortgage Funding, Inc."; J.P. Morgan Alternative Loan Trust 2006-A2 Free Writing Prospectus, Apr. 5, 2006, at "GreenPoint Mortgage Funding, Inc."

301. The People's Choice Home Loan Securities Trust Series 2005-4 Prospectus Supplement stated:

> All of the [People's Choice Home Loan, Inc. ("PCHLI")] mortgage loans were originated by PCHLI in accordance with the underwriting criteria described in this section. Approximately 90% of PCHLI loan production consists of wholesale loan transactions. To obtain a loan in this manner, an independent third-party mortgage broker receives a mortgage loan application from a borrower, gathers information needed to make a credit decision, processes that information, and provides that information to PCHLI. PCHLI then reviews the information provided by the mortgage broker and makes a credit decision based on the borrower's application for a mortgage loan. PCHLI thoroughly reviews all credit, income, character and collateral information provided by the broker for completeness, accuracy and authenticity. For example, PCHLI orders its own tri-merged credit report, verbally verifying employment, verifying income where available, and completing an internal independent review of each appraisal submitted for consideration. They also use third-party vendors to verify the customer information disclosed on the borrower's credit application.
>
> For PCHLI's fiscal year-ended December 31, 2004, approximately 10% of PCHLI loan production consists of retail loan transactions. A PCHLI loan officer receives a mortgage loan application from a borrower, gathers information needed

> to make a credit decision, processes that information, packages and checks the information for inaccuracies prior to submitting it for underwriting, and provides that information to PCHLI underwriters. PCHLI thoroughly reviews all credit, income, character and collateral information provided by the PCHLI loan officer and makes a credit decision based on the borrower's application for a mortgage loan using the same processes and guidelines used in wholesale transactions. PCHLI typically conducts a final pre-funding check of the underwriting packages prior to wiring money to fund a mortgage loan.

People's Choice Home Loan Securities Trust Series 2005-4 Prospectus Supplement at S-55.

302. The People's Choice Home Loan Securities Trust Series 2005-4 Prospectus Supplement continued:

> The mortgage loans are generally consistent with and conform to the Underwriting Guidelines for "full documentation," "lite documentation," and "stated income documentation" residential loan programs. On a case-by-case basis, exceptions to the Underwriting Guidelines are made where compensating factors exist. It is expected that some portion of the PCHLI loans will represent those exceptions. In addition, PCHLI documents all exceptions in its loan files and has recently adopted a policy completely prohibiting exceptions for borrowers with credit scores of 540 or lower and for any borrowers that use stated income documentation for the 80/20 combination (100% LTV) loan program. Under each program, PCHLI reviews the applicant's source of income, calculates the amount of income from sources indicated on the loan application or similar documentation, reviews the credit history of the applicant, calculates the debt service-to-income ratio to determine the applicant's ability to repay the loan, reviews the type and use of the property being financed, and reviews the property appraisal. In determining the ability of the applicant to repay the loan, a loan rate is assigned that is generally equal to the interest rate established under the Underwriting Guidelines. The Underwriting Guidelines require that mortgage loans be underwritten in a standardized procedure and require the underwriters to be satisfied that the value of the property being financed, as reflected by an appraisal and a review of the appraisal, supports the outstanding loan balance at time of loan funding.

People's Choice Home Loan Securities Trust Series 2005-4 Prospectus Supplement at S-56.

303. People's Choice Home Loan Securities Trust Series 2005-4 Prospectus Supplement stated:

> In evaluating the credit quality of borrowers, PCHLI utilizes Credit Scores, mortgage or rent payment history, job stability and income. The Underwriting Guidelines require all borrowers to have demonstrated a willingness to pay.

People's Choice Home Loan Securities Trust Series 2005-4 Prospectus Supplement at S-56.

304. The People's Choice Home Loan Securities Trust Series 2005-4 Prospectus Supplement stated:

> Under the Underwriting Guidelines, PCHLI has established eight principal risk categories ranging from "AAA" to "C," with respect to the credit profile of potential borrowers, and assigns a rating to each mortgage loan based upon these classifications, assessing the likelihood the applicant will repay the mortgage loan. These risk categories establish the maximum permitted LTV, the maximum loan amount and the allowed use of loan proceeds given the borrower's mortgage payment history, consumer credit history, liens/charge-offs/bankruptcy history, debt-to-income ratio, use of proceeds, documentation type and other factors.
>
> In general, higher credit risk mortgage loans are graded in categories that require lower debt to income ratios and lower LTV ratios and permit more (or more recent) major derogatory credit items, such as outstanding judgments or prior bankruptcies.

People's Choice Home Loan Securities Trust Series 2005-4 Prospectus Supplement at S-56.

305. The SACO I Trust 2006-7 Prospectus Supplement stated:

> The underwriting guidelines are primarily intended to assess the borrower's ability to repay the mortgage loan, to assess the value of the mortgaged property and to evaluate the adequacy of the mortgaged property as collateral for the mortgage loan. While the originator's primary consideration in underwriting a mortgage loan is the value of the mortgaged property, the originator also considers, among other things, a mortgagor's credit history, repayment ability and debt service to income ratio as well as the type and use of the mortgaged property. Some of the mortgage loans bear higher rates of interest than mortgages loan that are originated in accordance with Fannie Mae and Freddie Mac standards, which is likely to result in rates of delinquencies and foreclosures that are higher, and that may be substantially higher, than those experienced by portfolios of mortgage loans underwritten in a more traditional manner. The mortgage loans will have been originated in accordance with the underwriting guidelines. On a case-by-case basis, exceptions to the underwriting guidelines are made where compensating factors exist. It is expected that a substantial portion of the mortgage loans in the mortgage pool that were originated by the originators will represent these exceptions.
>
> Each applicant completes an application that includes information with respect to the applicant's liabilities, income, credit history, employment history and personal information. The underwriting guidelines require a credit report on each applicant from a credit reporting company. The report typically contains information

> relating to matters such as credit history with local and national merchants and lenders, installment debt payments and any record of defaults, bankruptcies, repossessions or judgments.

SACO I Trust 2006-7 Prospectus Supplement at S-33.

306. UNTRUE STATEMENTS AND OMITTED INFORMATION: The preceding statements were material at the time they were made, because the quality of the loans in the mortgage pool directly affects the riskiness of the RMBS investment, and the quality of the loans is dependent upon the underwriting process employed. The preceding statements were untrue at the time they were made because, among other things, the Originators did not adhere to the stated underwriting guidelines, did not effectively evaluate the borrowers' ability or likelihood to repay the loans, did not properly evaluate whether the borrower's debt-to-income ratio supported a conclusion that the borrower had the means to meet his/her monthly obligations, and did not ensure that adequate compensating factors justified the granting of exceptions to guidelines.

B. Untrue Statements Concerning Adherence to Reduced Documentation Program Underwriting Guidelines

307. The Bear Stearns ALT-A Trust 2005-9 Prospectus Supplement stated:

> In connection with the Standard Underwriting Guidelines, Countrywide Home Loans originates or acquires mortgage loans under the Full Documentation Program, the Alternative Documentation Program, the Reduced Documentation Program, the CLUES Plus Documentation Program or the Streamlined Documentation Program.
>
> The Alternative Documentation Program permits a borrower to provide W-2 forms instead of tax returns covering the most recent two years, permits bank statements in lieu of verification of deposits and permits alternative methods of employment verification.
>
> Under the Reduced Documentation Program, some underwriting documentation concerning income, employment and asset verification is waived. Countrywide Home Loans obtains from a prospective borrower either a verification of deposit or bank statements for the two-month period immediately before the date of the mortgage loan application or verbal verification of employment. Since information relating to a prospective borrower's income and employment is not verified, the borrower's debt-to-income ratios are calculated based on the

information provided by the borrower in the mortgage loan application. The maximum Loan-to-Value Ratio ranges up to 95%.

The CLUES Plus Documentation Program permits the verification of employment by alternative means, if necessary, including verbal verification of employment or reviewing paycheck stubs covering the pay period immediately prior to the date of the mortgage loan application. To verify the borrower's assets and the sufficiency of the borrower's funds for closing, Countrywide Home Loans obtains deposit or bank account statements from each prospective borrower for the month immediately prior to the date of the mortgage loan application. Under the CLUES Plus Documentation Program, the maximum Loan-to-Value Ratio is 75% and property values may be based on appraisals comprising only interior and exterior inspections. Cash-out refinances and investor properties are not permitted under the CLUES Plus Documentation Program.

The Streamlined Documentation Program is available for borrowers who are refinancing an existing mortgage loan that was originated or acquired by Countrywide Home Loans provided that, among other things, the mortgage loan has not been more than 30 days delinquent in payment during the previous twelve-month period. Under the Streamlined Documentation Program, appraisals are obtained only if the loan amount of the loan being refinanced had a Loan-to-Value Ratio at the time of origination in excess of 80% or if the loan amount of the new loan being originated is greater than $650,000. In addition, under the Streamlined Documentation Program, a credit report is obtained but only a limited credit review is conducted, no income or asset verification is required, and telephonic verification of employment is permitted. The maximum Loan-to-Value Ratio under the Streamlined Documentation Program ranges up to 95%.

Bear Stearns ALT-A Trust 2005-9 Prospectus Supplement at S-50; Structured Asset Mortgage Investments II Trust 2006-AR2 Prospectus Supplement at S-42.

308. The Bear Stearns ALT-A Trust 2005-9 Prospectus Supplement also represented:

In connection with the Expanded Underwriting Guidelines, Countrywide Home Loans originates or acquires mortgage loans under the Full Documentation Program, the Alternative Documentation Program, the Reduced Documentation Loan Program, the No Income/No Asset Documentation Program and the Stated Income/Stated Asset Documentation Program. Neither the No Income/No Asset Documentation Program nor the Stated Income/Stated Asset Documentation Program is available under the Standard Underwriting Guidelines.

The same documentation and verification requirements apply to mortgage loans documented under the Alternative Documentation Program regardless of whether the loan has been underwritten under the Expanded Underwriting Guidelines or the Standard Underwriting Guidelines. However, under the Alternative Documentation Program, mortgage loans that have been underwritten pursuant to

> the Expanded Underwriting Guidelines may have higher loan balances and Loan-to-Value Ratios than those permitted under the Standard Underwriting Guidelines.
>
> Similarly, the same documentation and verification requirements apply to mortgage loans documented under the Reduced Documentation Program regardless of whether the loan has been underwritten under the Expanded Underwriting Guidelines or the Standard Underwriting Guidelines. However, under the Reduced Documentation Program, higher loan balances and Loan-to-Value Ratios are permitted for mortgage loans underwritten pursuant to the Expanded Underwriting Guidelines than those permitted under the Standard Underwriting Guidelines. The maximum Loan-to-Value Ratio, including secondary financing, ranges up to 90%. The borrower is not required to disclose any income information for some mortgage loans originated under the Reduced Documentation Program, and accordingly debt-to-income ratios are not calculated or included in the underwriting analysis. The maximum Loan-to-Value Ratio, including secondary financing, for those mortgage loans ranges up to 85%.
>
> Under the No Income/No Asset Documentation Program, no documentation relating to a prospective borrower's income, employment or assets is required and therefore debt-to-income ratios are not calculated or included in the underwriting analysis, or if the documentation or calculations are included in a mortgage loan file, they are not taken into account for purposes of the underwriting analysis. This program is limited to borrowers with excellent credit histories. Under the No Income/No Asset Documentation Program, the maximum Loan-to-Value Ratio, including secondary financing, ranges up to 95%. Mortgage loans originated under the No Income/No Asset Documentation Program are generally eligible for sale to Fannie Mae or Freddie Mac.
>
> Under the Stated Income/Stated Asset Documentation Program, the mortgage loan application is reviewed to determine that the stated income is reasonable for the borrower's employment and that the stated assets are consistent with the borrower's income. The Stated Income/Stated Asset Documentation Program permits maximum Loan-to-Value Ratios up to 90%. Mortgage loans originated under the Stated Income/Stated Asset Documentation Program are generally eligible for sale to Fannie Mae or Freddie Mac.

Bear Stearns ALT-A Trust 2005-9 Prospectus Supplement at S-51-52; Structured Asset Mortgage Investments II Trust 2006-AR2 Prospectus Supplement at S-43-44.

309. The Bear Stearns Second Lien Trust 2007-1 Prospectus Supplement stated:

> The mortgage loans originated by BSRM were originated generally in accordance with guidelines (the "BSRM Underwriting Guidelines") established by BSRM with one of the following income documentation types: "Full Documentation", "Limited Documentation," "Lite Documentation" or "Stated Income."
>
> …

Income Documentation Types

Full Documentation. The Full Documentation residential loan program is based upon current year to date income documentation as well as the previous two year's income documentation (i.e., tax returns and/or W-2 forms) and either one recent pay-stub with current year income on pay stub or two recent paystubs within 30 days of closing if year to date income is not provided on pay-stub) or bank statements for the previous 24 months. Self-employed borrowers must be self-employed in the same business or have received 1099 income in the same job for the last two years. Borrowers self-employed for less than two years (but at least one year) are considered on a case-by-case basis subject to a two-year history of previous successful employment in the same occupation or related field.

Limited Documentation. The Limited Documentation residential loan program is based on the recent 12 months of consecutive bank statements.

Lite Documentation. The Lite Documentation residential loan program is based on the most recent six months of consecutive bank statements.

Stated Income. The Stated Income residential loan program requires the applicant's employment and income sources to be stated on the application. The applicant's income as stated must be reasonable for the related occupation, borrowers' credit profile and stated asset, in the loan underwriter's discretion. However, the applicant's income as stated on the application is not independently verified. The borrower must demonstrate that they have at least reserves (sourced and seasoned) greater than or equal to three months principal, interest, taxes and insurance.

Bear Stearns Second Lien Trust 2007-1 Group II and III Prospectus Supplement at S-43-45.

310. The Bear Stearns Second Lien Trust 2007-1 Prospectus Supplement stated:

The underwriting guidelines require that the income of each applicant for a mortgage loan under the full/alternative documentation program be verified. The specific income documentation required for the originator's various programs is as follows: under the full/alternative documentation program, applicants are required to submit one written form of verification from the employer of stable income for at least 12 months. The documentation may take the form of a Verification of Employment form provided by the employer, the most recent pay stub with year-to-date earnings and the most recent W-2 or a copy of the borrower's federal tax returns. Under the limited documentation program the borrower may choose to submit 12 consecutive months of personal checking account bank statements. Under the stated income documentation program, an applicant may be qualified based upon monthly income as stated on the mortgage loan application if the applicant meets certain criteria. Income stated on the application is not verified under the stated income documentation program. All of the foregoing programs require that, with respect to salaried employees, there be a telephone verification of the applicant's employment. Verification of the source of funds to close the loan, if any, deposited by the applicant into escrow in the case of a purchase money loan is required.

Bear Stearns Second Lien Trust 2007-1 Group II and Group III Prospectus Supplement at S-42-43.

311. The ChaseFlex Trust Series 2007-2 Prospectus Supplement stated:

Pursuant to the "Streamlined Refinance Program," borrowers for whom JPMorgan or an affiliate currently services their mortgage loan are eligible for reduced verification and documentation of application information on a refinance or purchase transaction. In order to qualify for this program, the borrower's most recent 12 month mortgage history (24 months for purchase transactions) with JPMorgan or an affiliate must document that the account has been paid as agreed with no delinquency greater than 30 days past due. Additional credit history is generally not required, except with respect to certain transactions such as 2-4 units, refinances of government insured loans, and purchase transactions, which require standard credit history documentation. The property value on a refinance may have been established by validation that the original value has not declined. The property value for a purchase transaction always follows standard documentation requirements. Income and assets as stated on the application generally do not require verification. Debt ratios generally are not required.

"Reduced Documentation" program Mortgage Loans were originated under the "no ratio" or "no income verification" guidelines. Under the "no ratio" guidelines, no income is stated or verified but source(s) of income and employment are verified; under the "no income verification" guidelines, income is stated but not verified, however employment is verified; assets are verified in the case of both such guidelines.

For ChaseFlex Stated program Mortgage Loans (also known as Proactive "SISA" program Mortgage Loans or Stated Income/Stated Asset program Mortgage Loans), verification of the income and assets, as stated on the application, is not required. The underwriting for such mortgage loans requires AUS approval and is based entirely on stronger credit profile and lower loan-to-value ratio requirements.

For "No Doc" program Mortgage Loans, no employment information, sources of income, income amount or assets are disclosed. Additionally, employment verification is not required. The underwriting for such mortgage loans are based primarily or entirely on a stronger credit profile (evidenced by a higher minimum FICO credit risk score), a lower maximum product limit and additional due diligence performed on the collateral.

ChaseFlex Trust Series 2007-2 Prospectus Supplement at S-56-57. *See also* ChaseFlex Trust Series 2007-3 Prospectus Supplement at S-118-119; ChaseFlex Trust Series 2007-M1 Prospectus Supplement at S-95-96.

312. The SG Mortgage Securities Trust 2006-FRE2 Prospectus Supplement represented:

> There are three documentation types, Full Documentation ("Full Documentation"), Easy Documentation ("Easy Documentation") and Stated Income ("Stated Income"). Fremont's underwriters verify the income of each applicant under various documentation types as follows: under Full Documentation, applicants are generally required to submit verification of stable income for the periods of one to two years preceding the application dependent on credit profile; under Easy Documentation, the borrower is qualified based on verification of adequate cash flow by means of personal or business bank statements; under Stated Income, applicants are qualified based on monthly income as stated on the mortgage application. The income is not verified under the Stated Income program; however, the income stated must be reasonable and customary for the applicant's line of work.

SG Mortgage Securities Trust 2006-FRE2 Prospectus Supplement at S-36.

313. The GMACM Home Equity Loan Trust 2006-HE1 Prospectus Supplement stated:

> The underwriting standards set forth in the GMAC Mortgage Corporation underwriting guidelines with respect to HELOCs originated or acquired under the GMAC Mortgage Home Equity Program provide for varying levels of documentation. For fully documented loans, such as the "Standard" program, a prospective borrower is required to fill out a detailed application providing pertinent credit information, including tax returns if they are self employed or received income from dividends and interest, rental properties or other income which can be verified via tax returns. In addition, a borrower may demonstrate income and employment directly by providing alternative documentation in the form of a pay stub and a W-2. For the "Standard" program, the borrower is required to provide an authorization to apply for a credit report which summarizes the borrower's credit history with merchants and lenders and any record of bankruptcy. The borrower generally must show, among other things, a minimum of one year credit history reported on the credit report and that the HELOC is current at the time of application. Borrowers who have less than a 12 month first mortgage payment history may be subject to certain additional lending restrictions. In addition, under the GMAC Mortgage Corporation Home Equity

Program, generally borrowers with a previous foreclosure or bankruptcy within the past four years may not be allowed and a borrower generally must satisfy all judgments, liens and other legal actions with an original amount of $1,000 or greater prior to closing. Borrowers with a previous foreclosure or bankruptcy generally do not qualify for a loan unless extenuating credit circumstances beyond their control are documented. These loans require a drive by appraisal or statistical property evaluation for property values of $500,000 or less, and a full appraisal for property values of more than $500,000 and for all three and four unit properties.

Under the GMAC Mortgage Corporation underwriting guidelines, loans may also be originated under the "Stated Income Program," a no income verification program for self employed borrowers and salaried borrowers. For those loans, only a credit check and an appraisal are required. Those loans are generally limited to a loan amount of $25,000 to a high loan amount of $100,000 and are limited to primary residences. In addition, the borrower may be qualified under either the "No Income/No Appraisal" or "Stated Value" programs. Under such programs, a credit check is required, and the CLTV Ratio permitted is dependent upon the borrower's credit score indicator. In the case of GM and GM subsidiary employees under the "Family First Direct" program, the CLTV Ratio is limited to 90%. In addition, under the "Family First Direct" program, the borrower is qualified on his or her stated income in the application and the CLTV Ratio is based on the Stated Value, except that with respect to CLTV Ratios over 80%, the borrower must supply evidence of value. The maximum loan amount under the "Family First Direct" program is generally limited to $250,000. In addition, under the "GM Expanded Family" program, certain extended family members of GM and GM subsidiary employees are eligible for streamlined processing. The maximum CLTV under this program is limited to 90% and the maximum loan amount is generally limited to $250,000. Under the "GM Expanded Family" program, salaried borrowers are required to submit a current paystub reflecting at least 30 days of year-to-date earnings. For self-employed borrowers under the "GM Expanded Family" program, a minimum of two years self employment and a copy of the prior year's tax returns are required. In addition, the borrower may be qualified under a "No Income Verification" program. Under that program, a credit check is required. The borrower is qualified based on the income stated on the application. Those loans are generally limited to an amount of $100,000 or less, and are limited to primary residences. Those loans require a drive by appraisal or statistical property evaluation for property values of $500,000 or less, and a full appraisal for property values of more than $500,000. "GoFast" is a no income/no asset verification program that requires a minimum FICO score of 730 for up to a maximum 95% CLTV (a minimum FICO score of 700 for up to a maximum 90% CLTV) and limits the line amount to $100,000. A property valuation is required under the GoFast program.

Under GMAC Mortgage Corporation's underwriting guidelines, loans may also be originated under the "Relocation" or "Relocation-VIP" documentation programs. Under these programs, certain items described above are verified using alternative sources. In the case of "Relocation" documentation, a signed employer relocation verification form is acceptable in lieu of a paystub. The "Relocation-VIP" program does not require income verification, however, eligible borrowers must have a minimum annual base salary of $75,000.

GMACM Home Equity Loan Trust 2006-HE1 Prospectus Supplement at S-39-40. *See also* GMACM Home Equity Loan Trust 2006-HE5 Prospectus Supplement at S-34-36.

314. The Impac CMB Trust Series 2005-2 Prospectus Supplement stated:

Under the Full Income Documentation/Stated Assets Program available to borrowers in the Series I, II and III programs, the borrower provides full income and employment documentation information, which the Seller is required to verify. The borrower states assets on the Residential Loan Application (Fannie Mae Form 1003 or Freddie Mac Form 65); however, verification of assets is not required. With respect to the Full Income Documentation/Stated Assets Program, a mortgage loan is allowed to have a loan-to-value ratio at origination of up to 100%.

Under each Reduced Documentation Program, which is available to borrowers in every Progressive Series Program, the Seller obtains from prospective borrowers either a verification of deposits or bank statements for the most recent one-month period preceding the mortgage loan application. Under this program the borrower provides income information on the mortgage loan application, and the debt service-to-income ratio is calculated. However, income is not verified. Permitted maximum loan-to-value ratios (including secondary financing) under the Reduced Documentation Program generally are limited.

Under the "Stated Income Stated Assets" program available to borrowers in the Series I & II program, the borrower provides income and asset information, which the Seller is not required to verify, on the mortgage loan application. However, a debt-to-income ratio is calculated. Employment information is provided and is verbally verified. Permitted maximum loan-to-value ratios (including secondary financing) under the Stated Income Stated Asset program generally are limited.

Under the "No Ratio" program available to borrowers in the Series I and II program, the borrower provides no income information, but provides employment and asset information, which the Seller is required to verify, on the mortgage loan application. With respect to the "No Ratio" program, a mortgage loan with a loan-to-value ratio at origination in excess of 80% is generally not eligible.

Under the "No Income, No Assets" Program available to borrowers in the Series I Program, the borrower provides no income information, but provides employment and unverified asset information on the mortgage loan application. With respect to

> the "No Income, No Assets" Program, a mortgage loan with a loan-to-value ratio at origination in excess of 80% is generally not eligible.
>
> Under the Lite Income/Stated Assets Program which is available to borrowers for the Series I, II, and III Programs, the Seller obtains from prospective salaried borrowers a 30-day pay stub and from prospective self-employed borrowers bank statements for the most recent twelve-month period preceding the mortgage loan application and a year-to-date profit and loss statement. Under this program the borrower provides income information on the mortgage loan application, and the debt service-to-income ratio is provided. The maximum loan-to-value ratio under this program is 97%.
>
> Under the Lite Documentation Program, which is available to Series III+, Series IV, and Series V Program self-employed borrowers, the previous 12 months bank statements are utilized in lieu of tax returns. Under these programs the borrower provides income information on the mortgage loan applicant and the debt-to-service-to income ratio is calculated. However, income is not verified. Permitted maximum loan-to-value ratios (including secondary financing) under the Lite Documentation Program generally are limited.

Impac CMB Trust Series 2005-2 Prospectus Supplement at S-59-60. *See also* Impac CMB Trust Series 2005-6 Prospectus Supplement at the "Underwriting Standards" section.

315. On American Home's documentation programs, the J.P. Morgan Alternative Loan Trust 2007-A2 Prospectus Supplement represented:

> Certain non-conforming stated income or stated asset products allow for less verification documentation than Fannie Mae or Freddie Mac require. Certain non-conforming Alt-A products also allow for less verification documentation than Fannie Mae or Freddie Mac require. For these Alt-A products the borrower may not be required to verify employment income, assets required to close or both. For some other Alt-A products, the borrower is not required to provide any information regarding employment income, assets required to close or both. Alt-A products with less verification documentation generally have other compensating factors such as higher credit score or lower loan-to-value requirements.

J.P. Morgan Alternative Loan Trust 2007-A2 Prospectus Supplement at S-43; *see also* J.P. Morgan Alternative Loan Trust 2007-A2 Free Writing Prospectus, May 23, 2007, at "American

Home Mortgage Corp."; SACO I Trust 2006-2 Prospectus Supplement at S-34-35; SACO I Trust 2006-2 Prospectus Supplement at S-34; SACO I Trust 2006-8 Prospectus Supplement at S-26.

316. With respect to the Chase Originators' documentation programs, the J.P. Morgan Alternative Loan Trust 2007-A2 Prospectus Supplement stated:

> For ChaseFlex Stated program Mortgage Loans (also known as Proactive "SISA" program Mortgage Loans or Stated Income/Stated Asset program Mortgage Loans), verification of the income and assets, as stated on the application is not required. The underwriting for such mortgage loans requires AUS approval and is based entirely on stronger credit profile and lower loan-to-value requirements.

J.P. Morgan Alternative Loan Trust 2007-A2 Prospectus Supplement at S-41; *see* J.P. Morgan Alternative Loan Trust 2007-A2 Free Writing Prospectus, May 23, 2007, at "The Chase Originators."

317. The People's Choice Home Loan Securities Trust Series 2005-4 Prospectus Supplement stated:

> The specific income documentation required for PCHLI's various programs varies as follows: under the full documentation program, applicants usually are required to submit one written form of verification of stable income for at least 12 months. Under the lite documentation program, applicants usually are required to submit verification of stable income for at least 6 months, such as 6 consecutive months of complete personal or business (limited to 50% of the funds in a business account; corporate accounts do not qualify) checking account bank statements or a current paycheck stub with year-to-date information. Under the stated income documentation program, an applicant will be qualified based upon monthly income as stated on the mortgage loan application if the applicant meets certain criteria. All of these programs require, for salaried employees, a telephone verification of the applicant's employment, and verification of funds, if any, deposited by the applicant into escrow (if any) in the case of a purchase money loan. For a self-employed borrower, there is a telephone verification as well as additional documentation to verify the existence of the business owned by the borrower.

People's Choice Home Loan Securities Trust Series 2005-4 Prospectus Supplement at S-56.

318. The SACO I Trust 2006-7 Prospectus Supplement stated:

> The underwriting guidelines require that the income of each applicant for a

> mortgage loan under the full/alternative documentation program be verified. The specific income documentation required for the originator's various programs is as follows: under the full/alternative documentation program, applicants are required to submit one written form of verification from the employer of stable income for at least 12 months. The documentation may take the form of a Verification of Employment form provided by the employer, the most recent pay stub with year-to-date earnings and the most recent W-2 or a copy of the borrower's federal tax returns. Under the limited documentation program the borrower may choose to submit 12 consecutive months of personal checking account bank statements. Under the stated income documentation program, an applicant may be qualified based upon monthly income as stated on the mortgage loan application if the applicant meets certain criteria. Income stated on the application is not verified under the stated income documentation program. All of the foregoing programs require that, with respect to salaried employees, there be a telephone verification of the applicant's employment. Verification of the source of funds to close the loan, if any, deposited by the applicant into escrow in the case of a purchase money loan is required.

SACO I Trust 2006-7 Prospectus Supplement at S-34-35.

319. UNTRUE STATEMENTS AND OMITTED INFORMATION: The preceding statements were material at the time they were made, because the quality of the loans in the mortgage pool directly affects the riskiness of the RMBS investment, and the quality of the loans is dependent upon the underwriting process employed. The preceding statements were untrue at the time they were made, because regardless of the documentation program purportedly employed, the Originators systematically disregarded their underwriting guidelines.

C. Untrue Statements Concerning Loan-to-Value Ratios, Owner-Occupancy Rates, and DTI Ratios

320. The Offering Documents provided statistical descriptions of the collateral, such as LTV ratios, CLTV ratios, owner-occupancy rates, and DTI ratios. *See, e.g.*, SACO I Trust 2006-8 Prospectus Supplement at "Schedule A."

321. The Offering Documents represented that independent and objective appraisals were obtained for the properties. *See, e.g.*, SACO I Trust 2006-8 Prospectus Supplement at "American Home Mortgage Corp" ("Every mortgage loan is secured by a property that has been

appraised by a licensed appraiser in accordance with the Uniform Standards of Professional Appraisal Practice of the Appraisal Foundation.").

322. The Bear Stearns ALT-A Trust 2005-9 Prospectus Supplement stated:

> Countrywide Home Loan's Standard Underwriting Guidelines for mortgage loans with non-conforming original principal balances generally allow Loan-to-Value Ratios at origination of up to 95% for purchase money or rate and term refinance mortgage loans with original principal balances of up to $400,000, up to 90% for mortgage loans with original principal balances of up to $650,000, up to 75% for mortgage loans with original principal balances of up to $1,000,000, up to 65% for mortgage loans with original principal balances of up to $1,500,000, and up to 60% for mortgage loans with original principal balances of up to $2,000,000.
>
> For cash-out refinance mortgage loans, Countrywide Home Loan's Standard Underwriting Guidelines for mortgage loans with non-conforming original principal balances generally allow Loan-to-Value Ratios at origination of up to 75% and original principal balances ranging up to $650,000. The maximum "cash-out" amount permitted is $200,000 and is based in part on the original Loan-to-Value Ratio of the related mortgage loan. As used in this prospectus supplement, a refinance mortgage loan is classified as a cash-out refinance mortgage loan by Countrywide Home Loans if the borrower retains an amount greater than the lesser of 2% of the entire amount of the proceeds from the refinancing of the existing loan or $2,000.
>
> Countrywide Home Loan's Standard Underwriting Guidelines for conforming balance mortgage loans generally allow Loan-to-Value Ratios at origination on owner occupied properties of up to 95% on 1 unit properties with principal balances up to $417,000 ($625,500 in Alaska and Hawaii) and 2 unit properties with principal balances up to $533,850 ($800,775 in Alaska and Hawaii) and up to 80% on 3 unit properties with principal balances of up to $645,300 ($967,950 in Alaska and Hawaii) and 4 unit properties with principal balances of up to $801,950 ($1,202,925 in Alaska and Hawaii). On second homes, Countrywide Home Loan's Standard Underwriting Guidelines for conforming balance mortgage loans generally allow Loan-to-Value Ratios at origination of up to 95% on 1 unit properties with principal balances up to $417,000 ($625,500 in Alaska and Hawaii). Countrywide Home Loan's Standard Underwriting Guidelines for conforming balance mortgage loans generally allow Loan-to-Value Ratios at origination on investment properties of up to 90% on 1 unit properties with principal balances up to $417,000 ($625,500 in Alaska and Hawaii) and 2 unit properties with principal balances up to $533,850 ($800,775 in Alaska and Hawaii) and up to 75% on 3 unit properties with principal balances of up to $645,300 ($967,950 in Alaska and Hawaii) and 4 unit properties with principal balances of up to $801,950 ($1,202,925 in Alaska and Hawaii).

Bear Stearns ALT-A Trust 2005-9 Prospectus Supplement at S-49; Structured Asset Mortgage Investments II Trust 2006-AR2 Prospectus Supplement at S-41-42.

323. The Bear Stearns ALT-A Trust 2005-9 Prospectus Supplement continued:

> Countrywide Home Loan's Expanded Underwriting Guidelines for mortgage loans with non-conforming original principal balances generally allow Loan-to-Value Ratios at origination of up to 95% for purchase money or rate and term refinance mortgage loans with original principal balances of up to $400,000, up to 90% for mortgage loans with original principal balances of up to $650,000, up to 80% for mortgage loans with original principal balances of up to $1,000,000, up to 75% for mortgage loans with original principal balances of up to $1,500,000 and up to 70% for mortgage loans with original principal balances of up to $3,000,000. Under certain circumstances, however, Countrywide Home Loan's Expanded Underwriting Guidelines allow for Loan-to-Value Ratios of up to 100% for purchase money mortgage loans with original principal balances of up to $375,000.
>
> For cash-out refinance mortgage loans, Countrywide Home Loan's Expanded Underwriting Guidelines for mortgage loans with non-conforming original principal balances generally allow Loan-to-Value Ratios at origination of up to 90% and original principal balances ranging up to $1,500,000. The maximum "cash-out" amount permitted is $400,000 and is based in part on the original Loan-to-Value Ratio of the related mortgage loan.
>
> Countrywide Home Loan's Expanded Underwriting Guidelines for conforming balance mortgage loans generally allow Loan-to-Value Ratios at origination on owner occupied properties of up to 100% on 1 unit properties with principal balances up to $417,000 ($625,500 in Alaska and Hawaii) and 2 unit properties with principal balances up to $533,850 ($800,775 in Alaska and Hawaii) and up to 85% on 3 unit properties with principal balances of up to $645,300 ($967,950 in Alaska and Hawaii) and 4 unit properties with principal balances of up to $801,950 ($1,202,925 in Alaska and Hawaii). On second homes, Countrywide Home Loan's Expanded Underwriting Guidelines for conforming balance mortgage loans generally allow Loan-to-Value Ratios at origination of up to 95% on 1 unit properties with principal balances up to $417,000 ($625,500 in Alaska and Hawaii). Countrywide Home Loan's Expanded Underwriting Guidelines for conforming balance mortgage loans generally allow Loan-to-Value Ratios at origination on investment properties of up to 90% on 1 unit properties with principal balances up to $417,000 ($625,500 in Alaska and Hawaii) and 2 unit properties with principal balances up to $533,850 ($800,775 in Alaska and Hawaii) and up to 85% on 3 unit properties with principal balances of up to $645,300 ($967,950 in Alaska and Hawaii) and 4 unit properties with principal balances of up to $801,950 ($1,202,925 in Alaska and Hawaii).

Bear Stearns ALT-A Trust 2005-9 Prospectus Supplement at S-51; Structured Asset Mortgage Investments II Trust 2006-AR2 Prospectus Supplement at S-43.

324. The Bear Stearns ALT-A Trust 2005-9 Prospectus Supplement stated:

> With respect to purchase money or rate/term refinance loans secured by single family residences, loan-to-value ratios at origination of up to 97% for EMC mortgage loans with original principal balances of up to $400,000, up to 95% for EMC mortgage loans secured by one-to-two family, primary residences with original principal balances of up to $400,000 and up to 90% for EMC mortgage loans secured by one-to-four family, primary residences with original principal balances of up to $650,000 are generally allowed. EMC mortgage loans with principal balances up to $1,000,000, or super jumbos, are allowed if the loan is secured by the borrower's primary residence. The loan-to-value ratio for super jumbos generally may not exceed 80%. For cash out refinance loans, the maximum loan-to-value ratio generally is 90% and the maximum "cash out" amount permitted is based in part on the original amount of the related EMC mortgage loan.
>
> With respect to EMC mortgage loans secured by investment properties, loan-to-value ratios at origination of up to 95% for EMC mortgage loans with original principal balances up to $1,000,000 are permitted. EMC mortgage loans secured by investment properties may have higher original principal balances if they have lower loan-to-value ratios at origination - typically below 80%. For cash out refinance loans, the maximum loan-to-value ratio can be as high as 95% and the maximum "cash out" amount permitted is based in part on the original amount of the related mortgage loan.

Bear Stearns ALT-A Trust 2005-9 Prospectus Supplement at S-53.

325. The SG Mortgage Securities Trust 2006-FRE2 Prospectus Supplement represented:

> "A." Under the "A" category, an applicant must have not more than one 30-day late mortgage payment within the last 12 months and it must be at least 24 months since discharge of any Chapter 7 or Chapter 13 bankruptcy and/or foreclosure. The maximum loan-to-value ratio is 100% with a minimum Credit Score of 600. The maximum permitted loan-to-value ratio is reduced for: reduced income documentation, non-owner occupied properties, properties with 3-4 units, or properties with rural characteristics.
>
> "A-." Under the "A-" category, an applicant must have not more than three 30-day late mortgage payments within the last 12 months and it must be at least 24 months since discharge of any Chapter 7 or Chapter 13 bankruptcy and/or

foreclosure. The maximum loan-to-value ratio is 90% with a minimum Credit Score of 550. The maximum permitted loan-to-value ratio is reduced for: reduced income documentation, non-owner occupied properties, properties with 3-4 units, or properties with rural characteristics.

"B." Under the "B" category, an applicant must have not more than one 60-day late mortgage payment within the last 12 months and it must be at least 24 months since discharge of any Chapter 7 or Chapter 13 bankruptcy and/or foreclosure. The maximum loan-to-value ratio is 90% with a Credit Score of 550. The maximum permitted loan-to-value ratio is reduced for: reduced income documentation, non-owner occupied properties, properties with 3-4 units, or properties with rural characteristics.

"C." Under the "C" category, an applicant must have not more than one 90-day late mortgage payment within the last 12 months and it must be at least 24 months since discharge of any Chapter 7 or Chapter 13 bankruptcy and/or foreclosure. The maximum permitted loan-to-value ratio is 85% with a minimum Credit Score of 580. The maximum permitted loan-to-value ratio is reduced for: reduced income documentation, non-owner occupied properties, properties with 3-4 units, or properties with rural characteristics.

"C-." Under the "C-" category, an applicant must not be more than 150 days delinquent with respect to its current mortgage payment and it must not be subject of a Chapter 7 or Chapter 13 bankruptcy and/or foreclosure. The maximum permitted loan-to-value ratio is 70% with a minimum Credit Score of 500. The maximum permitted loan-to-value ratio is reduced for: reduced income documentation, non-owner occupied properties, properties with 3-4 units, or properties with rural characteristics.

"D." Under the "D" category, an applicant must not be more than 180 days delinquent with respect to its current mortgage payment. Any Chapter 7 or Chapter 13 bankruptcy proceedings and/or foreclosure actions must be paid in connection with closing. The maximum permitted loan-to-value ratio is 65% with a minimum Credit Score of 500. The maximum permitted loan-to-value ratio is reduced to 60% if the property is currently subject to foreclosure proceedings.

SG Mortgage Securities Trust 2006-FRE2 Prospectus Supplement at S-37-38.

326. The People's Choice Home Loan Securities Trust Series 2005-4 Prospectus Supplement stated:

> The maximum LTV depends on, among other things, the loan size, the purpose of the mortgage loan, borrower's credit history, repayment ability and debt service-to-income ratio, as well as the type and occupancy of the property.

People's Choice Home Loan Securities Trust Series 2005-4 Prospectus Supplement at S-56.

327. The SACO I Trust 2006-7 Prospectus Supplement stated:

> The maximum amount loaned to a borrower and the maximum loan to value ratio allowed for that loan depends on, among other things, the purpose of the mortgage loan, a borrower's credit history, homeownership history, mortgage payment history or rental payment history, repayment ability and debt service to income ratio, as well as the type and use of the property. With respect to purchase money, rate/term and cash out refinance loans secured by single family primary residences, loan-to-value ratios at origination of up to 100% for A+ credit grade mortgage loans with original principal balances of up to $750,000, up to 100% for A credit grade mortgage loans secured by single family, primary residences with original principal balances of up to $500,000, up to 95% for A and B credit grade mortgage loans secured by single family, primary residences with original principal balances of up to $500,000, up to 80% for C credit grade mortgage loans secured by single family, primary residences with original principal balances of up to $450,000 and up to 70% for C- credit grade mortgage loans secured by single family, primary residences with original principal balances up to $400,000 are allowed. The maximum "cash out" amount permitted is based in part on the original amount of the related mortgage loan.

SACO I Trust 2006-7 Prospectus Supplement at S-34.

328. UNTRUE STATEMENTS AND OMITTED INFORMATION: The preceding statements were material at the time they were made because the riskiness of the RMBS investment is directly dependent on the quality of the collateral and creditworthiness of the borrowers. The preceding statements were untrue at the time they were made because the LTV ratios were higher than represented, the owner-occupancy rates were lower than represented, and the DTI ratios were higher than represented.

IX. THE CLAIMS ARE TIMELY

329. For actions brought by the NCUA Board as Liquidating Agent, the FCUA extends the statute of limitations for at least three years from the date of the appointment of the NCUA

Board as Conservator or Liquidating Agent. *See* 12 U.S.C. § 1787(b)(14)(B)(i).

330. The NCUA Board placed the Credit Unions into conservatorship on September 24, 2010. On October 31, 2010, the NCUA Board placed the Credit Unions into liquidation and appointed itself as Liquidating Agent.

331. Actions brought under Section 11 of the Securities Act must be:

> brought within one year after the discovery of the untrue statement or the omission, or after such discovery should have been made by the exercise of reasonable diligence . . . . In no event shall any such action be brought to enforce a liability created under section 77k or 77*l*(a)(1) of this title more than three years after the security was bona fide offered to the public, or under section 77*l*(a)(2) of this title more than three years after the sale.

15 U.S.C. § 77m.

332. Actions brought under Section 13 of the Illinois Blue Sky law must be brought within:

> 3 years from the date of sale; provided, that if the party bringing the action neither knew nor in the exercise of reasonable diligence should have known of any alleged violation of subsection E, F, G, H, I or J of Section 12 of this Act which is the basis for the action, the 3 year period provided shall begin to run upon the earlier of:
>
> (1) the date upon which the party bringing the action has actual knowledge of the alleged violation of this Act; or
>
> (2) the date upon which the party bringing the action has notice of facts which in the exercise of reasonable diligence would lead to actual knowledge of the alleged violation of this Act; but in no event shall the period of limitation so extended be more than 2 years beyond the expiration of the 3 year period otherwise applicable.

815 Ill. Comp. Stat. Ann. 5/13(D).

333. Actions brought under Section 581-33 of the Texas Blue Sky law must be brought no "(a) more than three years after discovery of the untruth or omission, or after discovery should have been made by the exercise of reasonable diligence; or (b) more than five years after the sale." Tex. Rev. Civ. Stat. Ann. art 581, § 33(H)(2).

334. As the Federal Reserve Board noted in November 2008, the "deteriorating lending standards" and "the surge in early payment defaults suggests that underwriting . . . deteriorated on dimensions that were less readily apparent to investors." Christopher J. Mayer *et al.*, *The Rise in Mortgage Defaults* 15-16 (Fed. Reserve Bd. Fin. & Econ. Discussion Series, Paper No. 2008-59).

335. The FSOC explained that the origination and securitization process contains inherent "information asymmetries" that put investors at a disadvantage regarding critical information concerning the quality and performance of RMBS. The FSOC Risk Retention Report described the information disadvantage for investors of RMBS:

> One important informational friction highlighted during the recent financial crisis has aspects of a "lemons" problem that exists between the issuer and investor. An originator has more information about the ability of a borrower to repay than an investor, because the originator is the party making the loan. Because the investor is several steps removed from the borrower, the investor may receive less robust loan performance information. Additionally, the large number of assets and the disclosures provided to investors may not include sufficient information on the quality of the underlying financial assets for investors to undertake full due diligence on each asset that backs the security.

FSOC Risk Retention Report at 9 (footnote omitted).

336. In addition, Southwest and/or the NCUA Board as its Liquidating Agent is or was a member of the putative class in the case listed in Table 7, below. Therefore, the NCUA Board's claims are subject to legal tolling of the various periods of limitation pursuant to *American Pipe & Constr. Co. v. Utah*, 414 U.S. 538 (1974) ("American Pipe") and its progeny.

Table 7
Purchases Subject to Tolling Under American Pipe

CUSIP	ISSUING ENTITY	PURCHASER	TRADE DATE	AMERICAN PIPE TOLLING COMMENCEMENT DATE

CUSIP	ISSUING ENTITY	PURCHASER	TRADE DATE	AMERICAN PIPE TOLLING COMMENCEMENT DATE
46628GAE9	J.P. Morgan Alternative Loan Trust 2006-A2	Southwest	5/4/2007	*Plumbers & Pipefitters Local 562 v. J.P. Morgan,* No. 08-5675 (New York State Sup. Ct.) Complaint **Filed: March 26, 2008** Removed No. 08-1713 (E.D.N.Y.)

337. With respect to that RMBS purchase for which the NCUA Board asserts claims for Southwest under Section 11 of the Securities Act (Count Three), the earliest date it was bona fide offered to the public – after accounting for *American Pipe* tolling – was not more than three years prior to September 24, 2010. Accordingly, the NCUA Board's Section 11 claim on behalf of Southwest is not time-barred.

338. With respect to those RMBS purchases for which the NCUA Board asserts claims under state law (Counts One, Two, Four and Five), the earliest purchase date/offering date with respect to those claims was November 2, 2005, or not more than five years prior to September 24, 2010. Accordingly, the NCUA Board's state law claims are not time-barred.

X. CLAIMS FOR RELIEF

COUNT ONE
Violation of the Texas Securities Act
Tex. Rev. Civ. Stat. Ann. art. 581, § 33
(Bear Stearns Second Lien Trust 2007-1,
Bear Stearns Second Lien Trust 2007-1, Groups II and III,
Impac CMB Trust Series 2005-6,
People's Choice Home Loan Securities Trust Series 2005-4,
SG Mortgage Securities Trust 2006-FRE2,
SACO I Trust 2006-2, SACO I Trust 2006-7, SACO I Trust 2006-8)

339. The NCUA Board realleges paragraphs 1 through 338 of this Complaint, as though fully set forth here, except those paragraphs specific to offerings other than the Bear Stearns Second Lien Trust 2007-1, Bear Stearns Second Lien Trust 2007-1, Groups II and III,

Impac CMB Trust Series 2005-6, People's Choice Home Loan Securities Trust Series 2005-4, SG Mortgage Securities Trust 2006-FRE2, SACO I Trust 2006-2, SACO I Trust 2006-7, and SACO I Trust 2006-8 offerings.

340. The NCUA Board brings this cause of action pursuant to Section 33 of the Texas Securities Act, with respect to Southwest's purchases of the Bear Stearns Second Lien Trust 2007-1, Bear Stearns Second Lien Trust 2007-1, Groups II and III, Impac CMB Trust Series 2005-6, People's Choice Home Loan Securities Trust Series 2005-4, SG Mortgage Securities Trust 2006-FRE2, SACO I Trust 2006-2, SACO I Trust 2006-7, and SACO I Trust 2006-8 certificates against Defendant Bear Stearns as the seller of those certificates.

341. Defendant Bear Stearns offered to sell and sold the certificates to Southwest by means of written and/or oral communications which included untrue statements of material fact and/or omissions of material facts that were necessary to make the statements made not misleading, as alleged above.

342. The untrue statements of material fact and omitted facts were material because a reasonably prudent investor deciding whether to purchase the certificates would have viewed them as important and as substantially altering the total mix of information available, as alleged above.

343. Defendant Bear Stearns sold the certificates to Southwest in Texas.

344. At the time Southwest purchased the certificates, it did not know of these untruths and omissions.

345. If Southwest had known about these untruths and omissions, it would not have purchased the certificates from Defendant Bear Stearns.

346. Defendant Bear Stearns's sales of the certificates violated Tex. Rev. Civ. Stat.

Ann. art. 581, § 33(A)(2).

347. Southwest and Plaintiff sustained damages as a result of Defendant Bear Stearns's violations of Tex. Rev. Civ. Stat. Ann. art. 581, § 33(A)(2).

348. WHEREFORE, the NCUA Board requests the Court to enter judgment in its favor against Defendant Bear Stearns, awarding a rescissory measure of damages, or in the alternative compensatory damages, in an amount to be proven at trial; costs, and such other relief as the Court deems appropriate and just.

COUNT TWO

Violation of the Illinois Securities Law of 1953
815 Ill. Comp. Stat. Ann. 5/12
(Bear Stearns ALT-A Trust 2005-9, Bear Stearns Second Lien Trust 2007-1, GMACM Home Equity Loan Trust 2006-HE5, Impac CMB Trust Series 2005-2, SACO I Trust 2006-2, SACO I Trust 2006-12, Structured Asset Mortgage Investments II Trust 2006-AR2)

349. The NCUA Board realleges paragraphs 1 through 338 of this Complaint, as though fully set forth here, except those paragraphs specific to offerings other than the Bear Stearns ALT-A Trust 2005-9, Bear Stearns Second Lien Trust 2007-1, GMACM Home Equity Loan Trust 2006-HE5, Impac CMB Trust Series 2005-2, SACO I Trust 2006-2, SACO I Trust 2006-12, and Structured Asset Mortgage Investments II Trust 2006-AR2 offerings.

350. The NCUA Board brings this cause of action pursuant to Section 12 of the Illinois Securities Law of 1953, with respect to Members United's purchases of the Bear Stearns ALT-A Trust 2005-9, Bear Stearns Second Lien Trust 2007-1, GMACM Home Equity Loan Trust 2006-HE5, Impac CMB Trust Series 2005-2, SACO I Trust 2006-2, SACO I Trust 2006-12, and Structured Asset Mortgage Investments II Trust 2006-AR2 certificates against Defendant Bear Stearns as the seller of those certificates.

351. Defendant Bear Stearns offered to sell and sold the certificates to Members

United by means of written and/or oral communications which included untrue statements of material fact and/or omissions of material facts that were necessary to make the statements made not misleading, as alleged above.

352. The untrue statements of material fact and omitted facts were material because a reasonably prudent investor deciding whether to purchase the certificates would have viewed them as important and as substantially altering the total mix of information available, as alleged above.

353. Defendant Bear Stearns sold the certificates to Members United in Illinois.

354. At the time Members United purchased the certificates, it did not know of these untruths and omissions.

355. If Members United had known about these untruths and omissions, it would not have purchased the certificates from Defendant Bear Stearns.

356. Defendant Bear Stearns's sales of the certificates violated 815 Ill. Comp. Stat. Ann. 5/12(G).

357. Members United and Plaintiff sustained damages as a result of Defendant Bear Stearns's violations of 815 Ill. Comp. Stat. Ann. 5/12(G).

358. WHEREFORE, the NCUA Board requests the Court to enter judgment in its favor against Defendant Bear Stearns, awarding rescission or a rescissory measure of damages, or in the alternative compensatory damages, in an amount to be proven at trial; costs, and such other relief as the Court deems appropriate and just.

COUNT THREE
Section 11 of the Securities Act of 1933
(J.P. Morgan Alternative Loan Trust 2006-A2)

359. The NCUA Board realleges paragraphs 1 through 338 of this Complaint, as

though fully set forth here, except those paragraphs specific to offerings other than the J.P. Morgan Alternative Loan Trust 2006-A2 offering.

360. The NCUA Board brings this cause of action pursuant to Section 11 of the Securities Act of 1933, with respect to Southwest's purchase of the J.P. Morgan Alternative Loan Trust 2006-A2 certificate against Defendant J.P. Morgan, as the underwriter, and against Defendant J.P. Morgan Acceptance Corp. I as the issuer.

361. At the time the registration statement became effective, it (including the prospectus and any prospectus supplements) contained untrue statements and omitted facts that were necessary to make the statements made not misleading, as alleged above.

362. The untrue statements and omitted facts were material because a reasonably prudent investor deciding whether to purchase the certificate would have viewed them as important and as substantially altering the total mix of information available, as alleged above.

363. Southwest purchased the certificate pursuant to and traceable to a defective registration statement, as alleged above.

364. At the time Southwest purchased the certificate, it did not know of the untrue statements and omissions contained in the registration statement.

365. J.P. Morgan's and J.P. Morgan Acceptance Corp. I's conduct as alleged above violated Section 11.

366. Southwest and Plaintiff sustained damages as a result of J.P. Morgan's and J.P. Morgan Acceptance Corp. I's violations of Section 11.

367. WHEREFORE, the NCUA Board requests the Court to enter judgment in its favor against Defendant J.P. Morgan and Defendant J.P. Morgan Acceptance Corp. I, jointly and severally, awarding all damages, in an amount to be proven at trial, costs, and such other relief as

the Court deems appropriate and just.

COUNT FOUR

Violation of the Texas Securities Act
Tex. Rev. Civ. Stat. Ann. art. 581, § 33
(ChaseFlex Trust Series 2007-2, GMACM Home Equity Loan Trust 2006-HE1, J.P. Morgan Alternative Loan Trust 2006-A2, J.P. Morgan Alternative Loan Trust 2007-S1, J.P. Morgan Alternative Loan Trust 2007-A1, J.P. Morgan Alternative Loan Trust 2007-A2)

368. The NCUA Board realleges paragraphs 1 through 338 of this Complaint, as though fully set forth here, except those paragraphs specific to offerings other than the ChaseFlex Trust Series 2007-2, GMACM Home Equity Loan Trust 2006-HE1, J.P. Morgan Alternative Loan Trust 2006-A2, J.P. Morgan Alternative Loan Trust 2007-S1, J.P. Morgan Alternative Loan Trust 2007-A1 and the J.P. Morgan Alternative Loan Trust 2007-A2 offerings.

369. The NCUA Board brings this cause of action pursuant to Section 33 of the Texas Securities Act, with respect to Southwest's purchases of the ChaseFlex Trust Series 2007-2, GMACM Home Equity Loan Trust 2006-HE1, J.P. Morgan Alternative Loan Trust 2006-A2, J.P. Morgan Alternative Loan Trust 2007-S1, J.P. Morgan Alternative Loan Trust 2007-A1 and the J.P. Morgan Alternative Loan Trust 2007-A2 certificates against Defendant J.P. Morgan, as the seller of those certificates.

370. Defendant J.P. Morgan offered to sell and sold the certificates to Southwest by means of written and/or oral communications which included untrue statements of material fact and/or omissions of material facts that were necessary to make the statements made not misleading, as alleged above.

371. The untrue statements of material fact and omitted facts were material because a reasonably prudent investor deciding whether to purchase the certificates would have viewed them as important and as substantially altering the total mix of information available, as alleged

above.

372. Defendant J.P. Morgan sold the certificates to Southwest in Texas.

373. At the time Southwest purchased the certificates, it did not know of these untruths and omissions.

374. If Southwest had known about these untruths and omissions, it would not have purchased the certificates from Defendant J.P. Morgan.

375. Defendant J.P. Morgan's sales of the certificates violated Tex. Rev. Civ. Stat. Ann. art. 581, § 33(A)(2).

376. Southwest and Plaintiff sustained damages as a result of Defendant J.P. Morgan's violations of Tex. Rev. Civ. Stat. Ann. art. 581, § 33(A)(2).

377. WHEREFORE, the NCUA Board requests the Court to enter judgment in its favor against Defendant J.P. Morgan, awarding a rescissory measure of damages, or in the alternative compensatory damages, in an amount to be proven at trial; costs, and such other relief as the Court deems appropriate and just.

COUNT FIVE

Violation of the Illinois Securities Law of 1953
815 Ill. Comp. Stat. Ann. 5/12
(ChaseFlex Trust Series 2007-3, ChaseFlex Trust Series 2007-M1, GMACM Home Equity Loan Trust 2006-HE1, J.P. Morgan Alternative Loan Trust 2007-S1, J.P. Morgan Alternative Loan Trust 2007-A1)

378. The NCUA Board realleges paragraphs 1 through 338 of this Complaint, as though fully set forth here, except those paragraphs specific to offerings other than the ChaseFlex Trust Series 2007-3, ChaseFlex Trust Series 2007-M1, GMACM Home Equity Loan Trust 2006-HE1, J.P. Morgan Alternative Loan Trust 2007-S1 and the J.P. Morgan Alternative Loan Trust 2007-A1 offerings.

379. The NCUA Board brings this cause of action pursuant to Section 12 of the Illinois

Securities Law of 1953, with respect to Members United's purchases of the ChaseFlex Trust Series 2007-3, ChaseFlex Trust Series 2007-M1, GMACM Home Equity Loan Trust 2006-HE1, J.P. Morgan Alternative Loan Trust 2007-S1 and the J.P. Morgan Alternative Loan Trust 2007-A1 certificates against Defendant J.P. Morgan as the seller of those certificates.

380. Defendant J.P. Morgan offered to sell and sold the certificates to Members United by means of written and/or oral communications which included untrue statements of material fact and/or omissions of material facts that were necessary to make the statements made not misleading, as alleged above.

381. The untrue statements of material fact and omitted facts were material because a reasonably prudent investor deciding whether to purchase the certificates would have viewed them as important and as substantially altering the total mix of information available, as alleged above.

382. Defendant J.P. Morgan sold the certificates to Members United in Illinois.

383. At the time Members United purchased the certificates, it did not know of these untruths and omissions.

384. If Members United had known about these untruths and omissions, it would not have purchased the certificates from Defendant J.P. Morgan.

385. Defendant J.P. Morgan's sales of the certificates violated 815 Ill. Comp. Stat. Ann. 5/12(G).

386. Members United and Plaintiff sustained damages as a result of Defendant J.P. Morgan's violations of 815 Ill. Comp. Stat. Ann. 5/12(G).

387. WHEREFORE, the NCUA Board requests the Court to enter judgment in its favor against Defendant J.P. Morgan, awarding rescission or a rescissory measure of damages, or

in the alternative compensatory damages, in an amount to be proven at trial; costs, and such other relief as the Court deems appropriate and just.

Jury Demand

Plaintiff hereby demands a trial by jury of all issues properly triable.

Dated: September 23, 2013

NATIONAL CREDIT UNION ADMINISTRATION BOARD,
as Liquidating Agent of Southwest Corporate Federal Credit Union and Members United Corporate Federal Credit Union

By:___________________________________

Peter W. Tomlinson
Philip R. Forlenza
Erik Haas
Michelle W. Cohen
PATTERSON BELKNAP WEBB & TYLER LLP
1133 Avenue of the Americas
New York, NY 10036-6710
Phone: (212) 336-2000
Fax (212) 336-2222
pwtomlinson@pbwt.com
pforlenza@pbwt.com
ehaas@pbwt.com
mcohen@pbwt.com

George A. Zelcs
KOREIN TILLERY LLC
205 North Michigan Avenue
Suite 1950
Chicago, Illinois 60601
Phone: (312) 641-9760
Fax: (312) 641-9751

Stephen M. Tillery
Peter H. Rachman
Robert L. King
Diane E. Moore
KOREIN TILLERY LLC
505 North Seventh Street
Suite 3600
St. Louis, Missouri 63101-1625
Phone: (314) 241-4844
Fax: (314) 241-3525

Mark C. Hansen
David C. Frederick
Wan J. Kim
Gregory G. Rapawy
KELLOGG, HUBER, HANSEN, TODD, EVANS & FIGEL, P.L.L.C.
Sumner Square
1615 M Street, N.W.
Suite 400
Washington, D.C. 20036
Phone: (202) 326-7900
Fax: (202) 326-7999

Attorneys for the National Credit Union Administration Board

Of Counsel:
Michael J. McKenna, General Counsel
John K. Ianno, Associate General Counsel
NATIONAL CREDIT UNION ADMINISTRATION
1775 Duke Street
Alexandria, Virginia 22314